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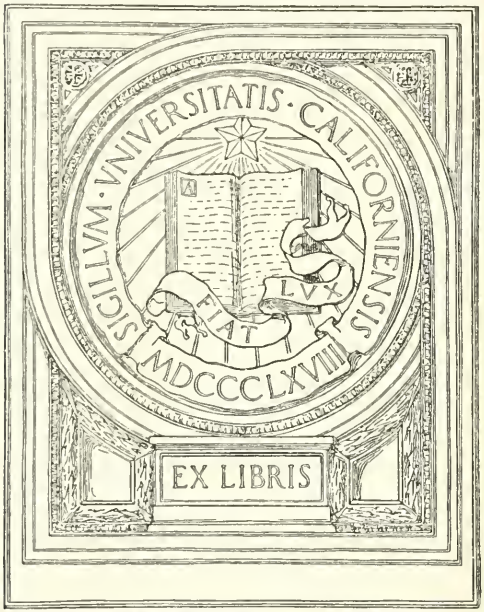

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MARKETING AGRICULTURAL PRODUCTS

MARKETING AGRICULTURAL PRODUCTS

BY

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D. APPLETON AND COMPANY
NEW YORK :: 1923 :: LONDON

54343

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PREFACE

The purpose of this book is to serve as the basis of a study of marketing both for college students and those more directly connected with the actual operations of selling farm products. It will be noticed that no attempt has been made to furnish a compendium, or handbook, of facts. The facts and descriptions of the marketing process are much more readily obtainable than are discussions of principles. It has been my purpose to discuss principles, using facts and descriptions as needed for illustrative purposes. The field of marketing is expanding so rapidly, in fact is already so large, that no one book is likely to cover everything, or even make a respectable attempt at doing so. From some years of experience in teaching marketing in the classroom it has seemed advisable to use a great deal of library material as collateral reading, both for teacher and student. The facts of marketing are accumulating in such quantities and are changing so constantly that any description is likely soon to be out of date. At least one way to conduct a course is to present in the classroom the main principles and setting of the subject matter, leaving to the ingenuity of the teacher the arrangement for student use of a large amount of descriptive source material as fresh from the field as possible. The easiest part of preparing a book of this sort is the writing of the descriptive chapters, such as are found in Part III. They could be expanded indefinitely. The intention has been to give a few descriptions of a sketchlike nature, and enough references to enable the one in charge of a course to find without too much trouble all the material needed. No general

bibliography is attempted. The use of such publications as the *International Review of Agricultural Economics;* the *American Economic Review;* the *Experiment Station Record;* and the *Agricultural Index,* will keep one in touch with substantially all current publications.

It is hoped that the point of view with respect to the struggle of the farmers for a better marketing system will be recognized as both sympathetic and critical. My connections with farming have always been too close to permit any other than a sympathetic view of farmer problems, yet at the same time the mistakes made by farmers in their efforts to correct unfortunate situations are often such as to demand criticism. The critical portions of this book are at least kindly in their intentions.

The author wishes to acknowledge his indebtedness to the many who have made information on marketing available, and to his own graduate students who have been a never-failing source of inspiration. Particular credit is due Mr. Paul Mehl of Corvallis, Oregon, for the use of a seminary report made by him, and which has been used freely in the preparation of Chapter X.

B. H. Hibbard

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CHAPTER I

THE RISE OF THE MARKETING PROBLEM

Markets Are Old.—A search for the beginning of marketing must of necessity be futile, since it began long before the period of written history. By inference we come to the conclusion that primitive man traded goods of which he had an excess for goods which to him were scarce. From the other side of the bargain the converse, and really the same thing, was taking place: Goods of which there was an abundance were exchanged for goods which were inadequate in quantity to satisfy the want. In this we have the essence of a market and of the marketing process. Ultimate sources are usually hard to find, and in the case of an economic institution as old, as fundamental, as primitive as marketing, there can be no hope of tracing the line of development back to the beginning. However, this need give us no concern, since we would be no better off should we be able to say that barter began fifty thousand years ago, and money exchange ten thousand years ago. Our main concern is with modern developments; as a matter of fact, with, what historically may be called, recent phenomena.

Self-sufficing Economy.—Over a very large part of the world's history man has lived in what may be termed a state of self-sufficing economy. Even at the present time this is true of the majority of mankind.

The Persians and Babylonians boasted that among the patriarchal families of their countries there were many, and they apparently the aristocrats, who neither bought nor sold. These large families constituted economic units within themselves.

The self-sufficing stage of economy persisted beyond the patriarchal and tribal periods of western civilization, and

characterized the life of the Roman, Frank, and English farmers down to the time of the Industrial Revolution. True, there were many variations and exceptions. Economic stages seldom or never succeed one another by abrupt transitions. They shade off so gradually that those living at a given time ordinarily view the conditions as permanent. So far as a given generation of people were concerned, conditions were relatively permanent in marketing arrangements until within a century and a half ago.

Foodstuff Not an Early Object of Commerce.—During this long period of the world's history, commerce was mainly in durable, concentrated, highly valuable goods. The ancient caravans carried few of what we now term staples, and much of choice fabrics, ornaments, spices, and furs. Food of few kinds was of such a nature as to permit either long transportation or long delay between its arrival at the food stage and its use. Meat, eggs, and dairy products could not be kept from spoiling, and except by certain water routes the cereals were too bulky to stand the expenditure in time and effort.

It must have been a fearful undertaking for Jacob's sons to engineer an overland expedition into Egypt for grain. It was made necessary by the extremities of a famine. What commerce the world had known in grain and other bulky products had grown up in connection with navigable rivers, lakes, and seas.

Self-sufficing Agriculture in America.—The New World was in most respects like the Old as far as markets were concerned. The farmers of early New England and the middle states were no more closely connected with markets than their ancestors of the European manors had been. It was indeed a long time after America was settled before a farmer could hope for a market for his surplus produce, unless he had both the opportunity and the foresight to produce very special commodities. Except along the border of waterways, grain was hardly marketable until two centuries after cultivation was begun. To begin with, most of the European markets would stand almost no strain in the way of added cereals, because the European people

had not reached that degree of specialization in employment where they wished to buy foodstuffs from across the seas; they produced their own.

The southern farmers were self-sufficing to an even greater degree in some respects, but, so far as food was concerned, distinctly less so than their northern neighbors. The southern farmer went early into commercial agriculture. He produced tobacco, cotton, and rice, and for all of these he must have a market. The result was an exchange of these staples for grain, meat—mostly salted—and for manufactured goods. Thus the South, for better or for worse, was early on a basis of commercial agriculture, while a large part of the North was getting along, each family on its own resources.

Before the Industrial Revolution, the agricultural commerce of the United States was confined mainly to the shipment of a few million dollars' worth of wheat and flour from the North and a like amount of cotton and rice from the South. The important economic unit was the group of country people in proximity to a village store. The store was the market. It was indeed about all the market available. The goods handled by village merchants included "grain of all kinds, beef, pork, poultry, cheese, butter, eggs, nuts, berries, hides, tallow, candles, lard, domestic flannels, feathers, quills, braided straw hats, potatoes, apples and other fruits, both green and dried, homemade brooms, flax and flaxseed, cider and domestic wines, etc."[1] This betokens hardly a stage of commerce, but rather one of barter.

It was during these years, and later, that is to say, the period before the steamboat and the railroad, that traffic in animal products concerned itself with hides, horns, and tallow, rather than with meat and dairy products. From the plains of our own country buffalo skins, and even buffalo bones, were carried east and south in great quantities. This may have been commerce but it was hardly agriculture. Real commerce in animal products awaited the

[1] Quoted in *A History of Commerce*, by Clive Day.

development of much more elaborate and rapid facilities for transportation and handling than had characterized the world previous to a generation or two ago.

The Industrial Revolution.—It was the Industrial Revolution that shook the world out of its age-long simplicity, and made the development of markets imperative. It was the concentration of a large part of the world's population in cities, together with the employment of still other large numbers in transportation, which had of necessity to develop, that gave the farmer an opportunity to produce for money instead of merely to satisfy the hunger of himself and his family.

Commercial agriculture, in contrast with a domestic system, did not develop in a day. It took a half century for the transition, or, more exactly, it took a half century for commercial agriculture to overbalance the simpler system; it has not yet wholly displaced it. The real break between the two systems came with the settlement of the Mississippi Valley. It was not that the people making the settlement were less able to get along without the outside world, but rather that for the first time they could produce staple crops in real abundance, and, accompanying this fact, there was a genuine demand for foodstuff in what was coming to be recognized as a world market. The Industrial Revolution had begun its work of concentration of population in great centers, and wheat and meat were wanted to such an extent as to warrant long shipment. The settlers of Ohio and Illinois were vitally interested in the flatboating down the rivers to New Orleans. Live stock was trailed from Ohio, Illinois, and even from Iowa, to the markets east of the Alleghenies. This may have been a great boon to the people wanting food, but it brought meager returns to the farmers producing the goods. It was a market undoubtedly better than none, but one in which the machinery operated with so much friction as to render the results of doubtful value.

Free Land.—Following close on the heels of the development of cities came the railroads and virtually free land. These were the influences that gave American farmers first

a market and next a marketing problem. The growth of agricultural machinery supplemented the railroad, and within a comparatively few years after the first railroads reached the Mississippi River it was evident that more cereals were reaching the eastern markets than could well be absorbed. In the meantime a great series of warehouses, merchants, boards of trade, brokers, commission men, banks, and exporters had, as it were, stationed themselves along the way between the western origin of the produce and the eastern buyers of it. No sooner had the markets been glutted than the belief spread broadcast that these agencies were to blame for the difficulty.

While some of the intermediaries may have been not altogether blameless, it was the superabundance of free land that was the fundamental cause of the trouble. The free land and the facilities for getting to it and for getting produce from it to populous centers was in itself a revolution. With this easy flow of foodstuff across half a continent, and perhaps across the ocean as well, there came an economic interdependence of one group of people on another. The eastern farmer had usually had some occupation in the nature of an avocation from which he made a part of his income. He made wooden hand rakes, or ax helves, or tinkered with iron; his wife braided hats or wove carpet. In the Middle West these minor occupations fell into the background; barter at the stores and shops became less usual. A money economy came to prevail, and in order to get money it was necessary to make sales. Thus, the farmer became at once a customer and a patron of dealers at a great distance from the farm. He raised grain and meat animals, and bought manufactured foods, fabrics, and tools. Free land, and better land than had before been available, land easily cleared and tilled, had tempted the farmer to undertake the economic service of supplying his eastern neighbors with abundant food, cotton, and wool.

The free-land lure coaxed settlers into the wilderness much more rapidly than the demand for agricultural products would have done. By this means the growing of grain became a matter of secondary consideration; the foodstuff

was a by-product of the land system, and as the eagerness to possess land was realized, the products of the land demoralized their own markets by their abundance. The distance to market, in spite of railways and boats, was more than the value of the produce could stand. During the quarter century before the Civil War wheat in the Chicago market ranged from 20 cents to $1.55 per bushel, with few years indeed above 75 cents. This means that the farmer two or three hundred miles to the west of Chicago received not over 50 cents a bushel, and this all too often after a long haul over bad roads by wagon, in the average years, and when prices were at their lowest, it could hardly be said that there was a market at all. A great deal of grain was raised and never marketed, but left to spoil either in the fields or in poor, inadequate granaries.

A Case of Overproduction.—At no time in the history of American agriculture has there been a more pronounced case of overproduction than that of the cereals during the two or three decades before the Civil War. A similar experience following the War, say, from 1870 to 1890, however, attracted more attention, and, no doubt, caused greater hardship. In the latter period the markets were hopelessly glutted. Wheat in the Northwest was worth, some years, no more than from 35 to 50 cents a bushel. This meant that the farmers were getting but from $3 to $10 an acre out of the crop, and there was hardly a living to be made from such returns.

It was a case of too much product in relation to the demand for such commodities. The English markets as well as our own were flooded. A generation of English farmers were ruined by American competition. We had precluded all possibility of prosperity by producing more than any one wanted, not of goods in general, for this is manifestly impossible, but of a certain few goods, the demand for which is distinctly inelastic. People will not eat much more when food is cheap than when it is dear.

Wheat has been taken as the leading instance of overproduction, but what has been said applies equally well

to substantially all other farm products. When wheat was 40 cents a bushel, corn was 15 or 20 cents; oats were about the same or less; live hogs were as low as $1.75 per hundred, on western farms; and dressed hogs, as low as $2.25 per hundred. The bounty of nature, coupled with the wisdom of man, plus his faith in the increase of land values, had well-nigh brought a whole generation of farmers to bankruptcy. Literally, however, farmers are seldom bankrupt. No matter how poor they are, the nature of farm credits is such as to permit them to continue the business almost indefinitely. Instead of failing they reduce their standard of living and continue to farm.

Farmers Discover Their Weak Position.—For some years before the Civil War various groups of farmers had come to the conclusion that something was wrong. Even thirty years before the War some of the New England farmers had been persuaded to join organized labor against a common enemy. Out in the Middle West rumblings of a threatening character were heard during the fifties. However, the trouble was diagnosed as a lack of transportation facilities until the railroad was built and reached nearly all settlements. Thus, no great remonstrance was manifest until the dull times following the Civil War. The railroads had extended their mileage greatly; they were carrying freight at something like 2 cents per ton mile. Grain rates were frequently about 1½ cents per ton mile. Thus it cost 50 or 60 cents a bushel to carry wheat from the interior of the country to the eastern seaboard. This subject will be discussed more in detail in the chapters on the Grange.

It was soon recognized that mere complaints were of no avail, and programs were formulated. Three lines of attack were projected. The first was legislative; the second was to take the form of self-help through coöperative organization; the third was educational, with the object of changing the farming system to conform better with general market conditions.

In the first part of the program, the legislative, it was proposed to control the railroads and warehouse companies

as the main thing needed. In this view the farmers were very largely right, and, had they not gone too far and too fast, would have done themselves and the country much good. Even as it was, they did a great deal of good, but with it a measure of harm, and from it they expected impossible results anyway. With the free land still abundant and with people to settle it, no railway rate could have been low enough or fair enough to prevent a flooding of the market with goods, and hence prices were destined to be low, even had freight been free.

The coöperative proposals reached clear through the market to the consumer, on the one hand, and to the manufacturer, on the other. They proposed to include the manufacturer within their own operations and to become manufacturers. The results of the coöperative plans will be noticed later. It must suffice here to call attention to the fact that coöperation, no matter how successful it might have been forty or fifty years ago, and it achieved a few successes, could not by any possibility have altered the general state of affairs with respect to the plethoric state of the world's markets. Coöperation might indeed have given the producer a somewhat larger share of the consumer's dollar, but even so, the general fact of an oversupply of the farm output would have rested like a millstone on the farmers' necks. There was no thoroughgoing cure other than the one which time, progress, and the limitation of the supply of virgin land have furnished.

The educational program was good and fairly well directed. The result of it was a greater demand for agricultural papers of a broad character, in place of the usual technical publication; a great demand for agricultural education, such as is furnished by the agricultural colleges; an interest in the work of experimentation in agriculture; and last, but not least, a feeling that agriculture should be viewed as an important calling, or business, equal in dignity and worthy of consideration along with the so-called industries. It was the marketing fiasco and an attempt to bring order out of the wreck that led to these broader considerations. No matter how we may view the program

adopted for the realization of these ideals, or what the judgment may be concerning the results attained, it must surely be admitted that the aspirations were commendable, and the occasion for their realization persistent.

Separation of Producer and Consumer.—As implied above, it is a clear case that during the main part of the world's history, so far as mere time is concerned, the producer and the consumer have lived near together. This was true of necessity since the means of transportation, to say nothing of other difficulties, were not adequate for reaching markets at a distance. For example, no longer ago than the first half of the nineteenth century it was the custom, and it had been for many years, for farmers to market their wheat by taking it to the neighboring mill, getting it ground, receiving it back, or possibly taking other mill stuff in exchange, and after using as much as was required for family needs, bartering the remaining amount at the store, or using it to pay for services and commodities around the neighborhood. It was by no means unusual for the minister, the blacksmith, or the schoolteacher to receive grain in lieu of cash in payment for work done.

Under these circumstances a surplus would soon react on production locally, or would force itself into a more distant market in spite of friction. The balance thus restored, the same round would again establish itself. While these conditions lasted the marketing questions were not acute, since each individual could pretty well survey the whole process for himself and act accordingly. This was before the days of genuinely commercial agriculture, when production was mainly for immediate, local consumption. In other words, during a period of self-sufficing economy, the market was a relatively small, even though important, incident.

Turn from this picture to that of a wheat grower in North Dakota or a wool grower of Montana in recent years. The contrast could hardly be greater. In the one case each community is dependent almost absolutely on other communities for the greater part of the necessaries of life; in

the other, if occasion required it, a given community could, without great inconvenience, live of its own. But in the conditions of the present day the farmer raises but a small part of what he eats, and a much smaller part of what he wears, while his tools are made for him in establishments perhaps across a continent in distance, and by processes which are beyond his reach. This is but a concrete way of saying that the producer and the consumer are a long way apart. They are a long way apart geographically, a long way socially, and perhaps a longer way economically. Hence, they are not even acquainted; they are usually not members of the same societies or organizations; they are frequently far apart in economic standing. The markets have expanded until the farmer no longer delivers his produce to the eaters and wearers, or pays for professional services in kind. On the contrary, his goods rise and fall in value with the ups and downs of the world market centers as affected by receipts and reports from all quarters of the globe. In some cases these developments have brought benefits; in some cases grief; in all cases complexity in place of the old simplicity. The market has become cosmopolitan; the farmer in many cases has remained provincial.

To sum up the situation, it may be said that the farmer had little or nothing in the way of marketing problems during the time when his economy was of the self-sufficing type. He may not have been poor, he may have been well-fed; he may even have been surrounded with considerable luxury, but he was not greatly concerned over markets. He had not arrived at the stage when it became necessary to think in terms of markets and market prices.

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CHAPTER II

MARKETING: ITS MEANING, SETTING, AND GENERAL CHARACTER

Definition.—Many attempts at defining the term "market" have been made, but no one of them is complete and satisfactory. That is to say, no one statement is at once comprehensive and clear. Perhaps as good as any single definition is this: *A market is the sphere within which price-making forces act.* This is both true and comprehensive, but it may not be altogether clear as to what is meant by the word "sphere" thus used. Does it relate to area, to people, or to conditions? It involves them all, but may not mean anything definite with respect to area, may not include any particular people, while even the conditions are elusive. The old version that "two women and a goose make a market," is a good one. Here the sphere of activity includes two people and one commodity for sale. It implies an offer and its acceptance, and delivery of the commodity. The women may or may not have a place of business; they may each be homeless, the one possessing but the single piece of visible property, and the other an equivalent of some sort in purchasing power. This equivalent might be money, a commodity for barter, services, or even promises. The two bargainers may meet at a market place; they may meet at the home of one of them, or in the road; they may make use of the telephone or the mails. No matter how or where the offer of one reaches the other, and is accepted, all the conditions of a market are fulfilled.

However, the term "market" has different meanings according to the angle from which it is viewed. Following rather closely the wording of the dictionaries, we arrive at definitions such as these:

1. *A meeting together of people for the purpose of buy-*

ing and selling. This is illustrated by the meeting of buyers and sellers at a stated time, as in street marketing of horses. There is probably no organization, no one in charge, but by common consent, through custom, buyers and sellers congregate in a given street at certain times.

2. *A body, or group, of people associated together for the purpose of buying and selling.* Here the organization is important, the meeting place may or may not be. An illustration is the board of commerce or board of trade, such as is to be found in the trade centers. The organization is the primary consideration, since rules and conditions, and even the action of the individuals, are prescribed by the body. Briefly, one may say that the Minneapolis Board of Commerce is a great grain market.

3. *The facts and conditions centering about the sale or purchase of some one commodity.* For example, the meat market, or the milk market, is mentioned with no reference to any particular set of people, or any place, both place and people being implied, as in the statement that the meat market is brisk.

4. *A market is a place where buyers and sellers meet.* No use of the word is better understood or better established. "Now there is at Jerusalem by the sheep market a pool."

5. *A market may be a region or country.* "A free-trade country is a good market in which to sell," or "England is a good market in which to buy textiles," illustrate the usage of the tradespeople.

6. *A market means opportunity to buy and sell.* For example, a potato grower who says that when there is a great overproduction there is no market and the crop is probably wasted, tells the exact truth so far as he is concerned. Nevertheless, there are, under these conditions, as many potato markets as ever; an unusual quantity is being used; but so far as certain portions of the crop are concerned, they go to waste, and one says of these, "There is no market." This means that one of the necessary conditions of a market is lacking. There is a potential seller but no buyer appears, hence no sales are made.

With these specific meanings of the word market in mind

one should be able to form a mental picture of what is meant in the more general and inclusive statement: *A market is the sphere within which price-determining forces operate.* In very plain terms a market means, primarily, buyers and sellers and the conditions and facilities for effecting purchases and sales.

The Place of Marketing in the Field of Economics.— By *production* is meant the creation or increase of utilities. By *distribution* is meant the sharing of the products or of the proceeds of production. By *exchange* is understood that part of economic activity which deals with the transfer of goods. No sooner do we consider exchange than the questions of value and price come prominently to mind. A market is concerned primarily with value and price, hence it may be considered the arena in which the value and price struggles take place.

While marketing seems, therefore, to be a part of exchange, it is also closely connected with production and distribution. In speaking of marketing one is sure to have in mind not only the price-making forces, but also many of the physical operations incident thereto. For example, let us consider marketing corn: Corn ordinarily must be hauled to town, unloaded, perhaps shelled, and shipped. At the same time that one set of men is struggling to depress prices of corn at the trade centers, another is trying to raise them. The former set of acts, that is, transportation, and the like, are productive; they add to the utilities of the corn. The latter set of acts, those of buying and selling, may not seem to be immediately productive, yet they add possession utilities. True, the possession utility may not always be obvious, since some buying and selling may appear futile, but all taken into consideration, the transactions without a doubt result in an increase of utilities.

While marketing seems, therefore, to be a part of exchange, so far as its machinery is concerned, it is much more logically a part of production and distribution; and again it is a part of production more clearly than a part of distribution, although the final act which ultimately

determines distribution is more often marketing than anything else. It is not necessary that the classification of marketing be rigidly made, so far as the old, accepted divisions of economics are concerned. These divisions were never better than roughly accurate, the particular subjects treated usually cutting across the dividing lines and finding place in two or more of the compartments. It is clear that marketing is a subject which refuses to lend itself without a protest to these old categories.

Should one think of marketing primarily in terms of value, money prices, and transfers, it follows that exchange will at once suggest itself as the grand division of which marketing is a part. Should the thought be centered on the occasion for marketing, that is, the separation of groups of producers, with the consequent necessity for an exchange in the ownership of the goods in order that wants may be satisfied, it becomes evident that marketing is a productive process. This must be true, since every move that is made in the preparation of the goods for market, every move made in transporting, storing, or in buying and selling adds utility, and the adding of utility is nothing other than production. Literally, marketing may be treated as a part of exchange; logically, it is a part of production.

Like other phases of production, marketing is so closely related to distribution as to be at times a part of it. Distribution means the sharing of the product, and the shares are determined so definitely by and through marketing forces as to be indistinguishable from whatever other traits and meaning the term may have. For example, a farmer may market his produce so badly as to leave himself nothing for his work, or he may be so skillful in marketing as to gain a satisfactory return. The difference in the distribution of the social values thus involved is very great, and no solution is adequate that does not involve the bargaining, or marketing, power. It is the same with individuals as with classes; distribution hinges on ability to obtain a price, and offering and getting prices is marketing.

Is Marketing a Cost or a Service?—Two fundamentally different points of view regarding marketing are held.

From one point of view, marketing is a cost, a charge on goods, an obstacle coming between the producer and the consumer. From the other point of view, marketing is seen as an economic service. Either of these points of view may be taken by the producer or by the consumer. The individual producer is quite likely to think of the market as a dark area between himself and his customer. For the most part he is right in this particular, since anything not understood may well be pictured as dark, and it is both literally and figuratively an area. The consumer thinks of the market in the same way. He sees cheap food out in the country, and comparing the farm or garden price with the price he pays a little later for it in town, he jumps to the conclusion that the market is a system designed expressly to keep him and the producers apart, in order that the merchants, brokers, and railway companies may exact their needless shares. To the consumer also, the market is a dark area, and "what takes place in the dark" is one of the great mysteries which he wants solved. These may be natural enough. There may even be some justification in them, but they are not fundamental and lead only to misunderstanding and friction.

Marketing, a Service.—In order that the idea of service may be perfectly clear to every one it seems that it must be free. It takes no argument to prove that the servant who receives no reward is rendering service. Just as soon, however, as the question of pay arises, the popular mind seems ready to reject the view that the one receiving the pay is performing a service. This arises, no doubt, from the old idea of the words servant and service, for ages associated with slavery and inferiority, or at least with an attitude of mind which is now expressed by the term servility. While not yet accorded the most prominent place in the list of definitions given in the dictionary, service among equals has come to mean the performance of an act which promotes the material interests or happiness, or confers a benefit. Nothing is said in this definition about pay, but it is a clear case that as compulsion disappears, and with it one-sided obligations, service becomes a matter of

mutual advantage and consists of exchanges of goods and benefits. Thus marketing may, without question, be viewed as a service. It is a means of conferring advantages which otherwise would be unobtainable or obtainable at greater cost or sacrifice.

Marketing Cost and Producer's Price.—While marketing is a service, it may, nevertheless, be viewed as a cost. This does not mean that all costs are justifiable. Clearly, the lower the costs the greater the welfare of society. This is true of all economic undertakings. Undue or unnecessary cost means that the effort so expended might better go into something else, since it is being wasted. If crops could be grown for nothing or marketed for nothing, the economic world would be essentially different from what it is. Even so, while this may seem like a platitude, to whatever extent production and marketing costs can be reduced, to that extent society will be the gainer. To make markets more efficient is to perform a social service.

The usual way of viewing the cost of marketing is to start with the price at the source of supply, the farm, and to add the several marketing charges until the other end of the line is reached. By this cumulative method the selling price is built, from the first, on producer's cost, and the inference is that the selling price is explained by these several charges which appear to group themselves into the final figure. Suppose the process be reversed and the selling price be taken as the starting point, from which intermediate charges are, one after the other, subtracted, until finally a remainder is found which represents the price to the producer. The former view seems to satisfy the majority of people. The latter is the view of the economists, with the exception of a few who still cling to the cost-of-production theory of value.

Marketing is a cost as well as a service. To the extent that costs limit supply of goods, it is possible to show that the selling price in the market is due in a measure to the cost of marketing. But in a more fundamental way it may be demonstrated that costs are subtracted from the selling price, leaving as a residue the producer's recompense.

The Nature of the Marketing Service.—If the reader will stop to think of the distances between producers and consumers; of the utter nonsense of producers and consumers getting together without intermediate agents; and of the time that must elapse between the period of production and that of consumption, it will be evident that marketing facilities are serviceable, not alone to society in the large, but to those immediately concerned.

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CHAPTER III

MARKETING TYPES AND METHODS

Types

Marketing may be classed under two main headings, direct and indirect. The former class may be subdivided into several parts based on the manner in which the marketing is carried out. In fact, it hinges mainly on the place at which the marketing is done, since, by its very nature, the manner of making the transaction is pretty much the same. Presumably the buyers meet, if not on the occasion of every sale, at least frequently enough to enable them to maintain an understanding as to the circumstances of the bargains. The exception to this is the direct bargaining at a distance where the mails or an occasional communication by telephone is relied upon to keep the parties in touch. The leading types of sales by direct methods are: (1) those consummated at the home of the producer; (2) those at the home of the consumer; (3) those at the market place; (4) those carried out through the medium of the mails, telephone, or similar means, and which may be styled long-distance direct marketing.

Direct Marketing.—Direct marketing means the marketing from producer to consumer without the intervention of a middleman. In primitive communities this is the usual and regular way. In complex communities, as among modern civilized peoples, it is becoming more and more unusual. This is necessarily so, since the producer and consumer are pushed farther and farther apart.

At the Home of the Producer.—Every one can give examples of goods sold by the person who produces them direct to those who use them. Flowers at a greenhouse, milk at the dairy, potatoes in the field, are familiar in-

stances. But very few people are so situated as to be able to go to these sources of supply to make bargains and carry away the produce. This system plays a very large, though an unknown, part, however, so far as quantity is concerned, in the whole marketing game. On the great majority of farms of the United States there is trading on a cash basis, or otherwise, with many members of the community. For example, there may be a horse for sale, a cow, a calf, chickens, feed, or seed, any of which is more likely to be sold to neighbors than to dealers. The part played by such transactions in the total income for the year is not negligible. In many instances it is indeed large, though for the country as a whole it is the minor part of the farm income. Moreover, the importance of these direct transactions, large though they be, must not be overemphasized, since a great many of them are based, with respect to prices, on the market established in trade centers. Thoroughgoing local markets, for any considerable quantities of farm produce, such as are sold to the consumer, at the home of the producer, are the exception and not the rule.

At the Home of the Consumer.—Another way of dealing direct is for the producer to go to the consumer for the sake of making sales. This way of dealing is also as old as time. A familiar instance is that of the milkman who carries the milk from his dairy to the consumer; another is the truck grower going from house to house with his wares. But a generation ago it was a frequent occurrence for a craftsman to peddle his skill, as it were, from house to house. For example, tailors traveled about and made clothes for farmers out of the home-grown and home-manufactured wool. Where the tailor furnished some or all of the material he, to that extent, became a merchant.

While this method of making sales, that is, at the home of the consumer, persists, and is likely to do so, its importance is not great, and becomes continually less so. While some milk and truck producers may find it profitable to carry their wares to the consumers, the great bulk of farm produce will not be, and cannot be, so marketed. It is only within the narrow confines of the neighborhood that such

marketing can flourish, and at the present time but little of our agricultural produce is available for such use.

At the Market Place.—Possibly the most common arrangement in effecting direct marketing is that of the market place. The commodities marketed direct are more often of the perishable sort, such as fruit and vegetables. Of a somewhat less perishable nature are the eggs and poultry which are found in most market places. Aside from these commodities, mostly for immediate use, there are in many markets bulkier farm products, such as feeds, hay, and grain. Likewise, live stock is frequently brought to the market place. Certain market days are often made the occasion of much trading in horses and, to a less extent, in other stock. It is not unusual for men to meet at the market place and there make conditional bargains for property not present and complete the negotiations at the home of the seller.

The development of commercial agriculture has given the local market, and hence the local market place, vastly less importance than it had a century ago. On the other hand, there seems to be a place, though a limited one, for the municipal market.

Transactions between Buyers and Sellers at Long Range.—Relatively little, yet in the aggregate an important amount, of farm produce is bought and sold direct at long range. The leading instances of this kind are such things as are shipped by parcel post or express, though they may occasionally go by freight. Eggs and dairy products, vegetables and flowers, and occasionally live animals, such as chickens, pigs, and calves, are sold direct from farmer to consumer, or to another farmer who wants them for breeding purposes. These instances are interesting, but, as will be shown in a later chapter, they make up but a small fraction of the total sales.

Indirect Marketing.—The great bulk of the produce of the farm is marketed indirectly. The nature of the case is such that it could hardly be otherwise. In the first place, it is bulky material. In the second place, it is produced at a distance from where it is to be ultimately wanted.

Indirect marketing may be divided into two fairly clear-cut classes. The first is the usual one, in which goods are passed along from hand to hand, through various middlemen and transportation companies. The second is an outgrowth of this development, an attempt to simplify it, and consists of an integration of the processes and means by which marketing is more usually done. This integration is of two kinds: (1) combining functions and processes; (2) combining different lines of goods.

Usual Indirect Marketing.—In the majority of cases the middleman performs a single, simple function. This may be illustrated by referring to the case of the local stock buyer who buys the stock from a farmer, ships it in the routine way to a commission firm, and makes his living out of the margin between his buying and selling prices. The transportation company is in a sense a middleman which also performs a simple, regular function. Direct marketing is effected ordinarily either by selling to a middleman or by consigning to a middleman, who in turn finds a buyer. Thus the bulk of farm goods is sold.

Sale to a Middleman.—This is the more prevalent of the two methods just mentioned. The usual way of selling grain, cotton, live stock, dairy, and the other more general farm products is to sell to some one of the merchant class, who in turn sells to the consumer, or perhaps often to another middleman who moves the goods along toward the consumer. These men seem to be just as necessary to the whole process of production as the farmer himself since in few instances is the farmer able, economically, to produce his goods and get them to the consumer direct. The dividing up of the market processes among several different men is closely related to the principle of division of labor, which has so long been accepted as both necessary and desirable.

Sale through a Middleman.—Another way of getting goods from the producer to a consumer is to consign them to a man who, without buying them himself, undertakes to find some one else to buy them. This he does usually for a stated part of the sale price, or for a given amount per

unit. These salesmen are known as commission men and brokers.

Methods

The Basis of the Transaction.—How is a commodity put upon the market? It requires little explanation where buyer and seller meet, for then the article which represents the basis of the bargain is in sight and each party has full opportunity to see and to consider the whole matter. In the case of marketing at a distance the circumstances are essentially different. Here the sale is usually to a middleman who, in order to stand competition, is obliged to be expeditious, yet he must know what he is getting. Several methods of meeting these requirements have been developed.

Sale by Individual Units.—Every one is familiar with this sort of bargaining. It characterizes the sale of farms, of houses, under most circumstances of horses, of dairy cows. In the retail trade a great number of commodities are sold by individual units and inspected by the buyer. This is true of clothes, shoes, hats, household furniture, and the like. At the same time there may be a large number of identical units which will satisfy the purchaser equally well. Hence a better instance of the individual unit as the basis of a bargain is a carriage horse or a woman's hat. In the latter case there is, or at least so it is hoped, no exact duplicate. The paintings of the great masters are good examples. No matter how many duplicates there may be there is but one original, and this in itself gives a distinction and a value. Here the individuality of the unit stands out prominently.

Where it is not practical to consider every individual unit, yet where samples cannot well be taken, the most feasible plan is by inspection. Here the buyer does not pass judgment on the whole series of articles one at a time, but makes a mass judgment, as it were. For example, a carload of sheep are passed upon as a group. If the sheep are fairly uniform it is not necessary that the buyer be able to recognize any given individual, or even see it so as to know it a second time, but the appearance of the whole

lot is the basis of price-making. It is conceivably possible to standardize fat stock so as to sell it by grade, but it will probably never be done as a general practice. The difficulty of establishing a standard and of getting the different grades together is too great, and, in consequence, the most satisfactory method seems to be for the buyers to make their bids with the stock actually before their eyes.

Sale by Sample.—This is a method intermediate between selling by inspection and selling by grade. It means the inspection of a small amount which is put forward as representative of the larger amount. This method is in common use in the grain market. For future trading in grain the sample is not satisfactory and the grade must be substituted, but for immediate purchase, as wheat for milling, or oats for feeding, the most satisfactory way seems to be by sample. Grain lends itself well to sampling. Vegetables, fruits, fibers, dairy products, tobacco, and all manner of seeds are further examples of sales by means of samples.

Sale by Grade.—Sale by grade begins to assume a more scientific aspect. The commodity must of necessity be relatively uniform and one in which such variations as there are may be defined and identified. One of the best examples is grain, particularly wheat. Relatively few words serve to give a clear picture of the grain. For instance, "No. 1 Northern" has such a definite meaning in the minds of the wheat dealers of the country that they are willing to stake their fortunes on the rise and fall of prices, not concerning themselves over the question of identifying the grade. By this method great quantities of grain change hands quickly and at long range. The advantages of sale by grade are mainly two: First, the transactions may take place without the physical presence of the commodity. This means that price-making influences reach over a wide circle almost at once, and a uniform price will result. Second, possibilities are provided for future contracts. Commodities which can be standardized and designated by grade can be sold for delivery in the future. This is true, for example, of wheat, corn, and cotton. It is coming to

be true of such products as butter and cheese, yet always to a lesser degree than of the commodities named above, since butter and cheese, no matter how carefully graded, change in quality as time passes. With butter the change is always for the worse; with cheese, for a year or so, it may be for the better. The more exactly produce can be brought to a standard of quality, the more nearly can prices be leveled over both territory and time, allowing in each case for the necessary costs of transporting and storing. In the manufacturing world articles which are readily standardized usually bear a trade-mark, and the trade-mark comes to stand for quality. Examples of this can be found at will, as Royal Baking Powder, or Heinz' 57 Varieties, concerning which the public knows the important facts.

Advertising, a Means of Marketing.—Just as truly as standards are effective in getting produce through the market, so advertising serves a great purpose in letting potential customers know what is to be had. The man with a perfectly staple commodity, such as wheat, or cotton, hardly needs to make use of any advertising medium in order to facilitate sales. The market is already made, so far as he is concerned. There is nothing unique about the particular quantity of corn which an ordinary grower has in his crib; the market price is well established and he must take it or keep his grain. On the other hand, he may have a hundred bushels of seed corn for sale, and with this the situation is essentially different. There probably is no well-established market with a stable price fixed. Those who buy are not ready to take the first article offered. Hence the question of getting buyer and seller together becomes a very important one, so important, in fact, as the difference between a sale at perhaps $2 to $6 a bushel, and the regular feeding value of the corn, which is perhaps 75 cents. A good advertiser lets it be known that he is in the market for making sales, and as a rule he makes them, while great numbers of potential competitors remain potential competitors only because of their failure or inability to furnish the connecting link between the product in their possession and the wants of customers.

Successful farmers are obliged to follow the well-known rules of business men in other lines and put a portion of their effort into distributing information about their products in order to make advantageous sales.

Bargaining Power.—Last, but by no means least, in the methods of the market is the ability to bargain. "'It is naught, it is naught,' saith the buyer; but when he is gone his way, then he boasteth." This principle is as old as civilization. It is a rare man indeed who applies the same terms of praise to the article under consideration, regardless of whether he is buyer or seller. Bargaining, like advertising, plays a relatively small rôle in transactions involving standard goods. In such cases prices are often standard, but by no means always, and, therefore, while bargaining plays a subordinate rôle, it may at the same time be an important one. Perhaps wheat is selling at a dollar, and a given farmer is offered that price. The tendency is to accept the offer without much delay or discussion. Nevertheless, a given farmer may have wheat of higher milling quality than the average; it may be desirable for seed and hence have an added value. Will he get this added value, or will the middleman get it? This depends on his bargaining skill. The easiest way is to take the price offered. The man of little information, of little courage, or of little energy will undoubtedly do so. The strong bargainer will find out what the prospects are with respect to sales and selling costs in the market at hand, above the first offer, and on this basis he will decide his action. Getting all that a buyer will give, or buying at the lowest figure a seller will take, is an art. It is an art that may be carried so far as to make the one too proficient in it unpopular. But used within reasonable limits, it makes the difference between mediocrity and eminent success. This ability stands out prominently in connection with such a business as pure-bred live stock. But just as truly it is important in altogether different lines, such as truck farming where, for example, the last cent may mean 10 per cent and in the end 10 per cent on the year's transactions is likely to reach the whole way from failure to success. Ability to

make good bargains is as important as any other single qualification, and will always remain one of the most fundamental, yet intangible, considerations in marketing goods.

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CHAPTER IV

MARKETING AGENCIES AND THEIR FUNCTIONS

Agencies Exercising Control

The Situation before the Industrial Revolution.—To those who have grown up in, and become accustomed to, the *laissez faire* atmosphere of the Anglo-Saxon portion of the world, nothing seems more fundamental than the right to buy and sell unhindered. The producer of goods feels that he has a right to sell when and how he pleases. Such privilege was anything but prevalent during the centuries preceding the Industrial Revolution. All marketing was under the control of the towns during the time of town supremacy. Shopkeepers were required to sell goods up to standard in weight, measure, and quality. It must not be imagined that regulation of this sort ran a smooth course. Quite the contrary. There was incessant trouble, and, as a result, a great deal of the regulation was only nominal because of difficulties arising from enforcement. One of the best known of the regulations which persisted, and presumably gave a fair measure of satisfaction, was the "assize of bread," which prescribed the weight of the loaf and set a price varying with the price of wheat.

In addition to the usual stores and shops of the English town, there was, as a rule, a public market. The purpose of the market was not so much for the convenience of the seller as for the protection of the buyer. There was a fear that the sellers would gain an advantage and compel the payment of unduly high prices. To guard against this not only was the public market place provided, but minute regulations concerning its conduct were prescribed. The individual buyer was to have first chance at the produce, as opposed to the shopkeepers. All produce brought in for the day was

to be taken to the market place, and, moreover, was not to be sold on the road, or ahead of time, by the producer to any one who might later offer it, or to shopkeepers, until after the retail work of the market for the day was closed. The object of the market was to prevent any unnecessary raise of price by middlemen, but, on the contrary, to help the consumer to meet the producer if possible, and if not, to restrict the number of intermediate transactions to the minimum. Nearly all of this sort of regulation lapsed during the closing years of the eighteenth century. The markets, left mainly free so far as price regulation and method of sale are concerned, are still to be found in great numbers of European towns and cities.

The Struggle between Private and Public Interests in Market Control.—For a full century following the Industrial Revolution the control over markets was almost exclusively in private hands. The state undertook some control over weights and measures, but before the close of the nineteenth century nothing of a signal character was brought to bear on the marketing question; in fact, most of the legislation on the subject of marketing has been passed since 1900. There was no particular reason why the policy of the country changed at that time. It was apparently the period of discontent on the part of consumers with the treatment accorded them by the middleman class. Discontent had prevailed for many years. There was a feeling that the marketing machinery had become unduly cumbersome, hence needlessly expensive. Of perhaps more importance than the needless cogs, wheels, and bearings in the marketing machine, was the conviction that the *laissez faire* program had failed to justify itself; consumers were complaining of the treatment received at the hands of middlemen. It was held that goods were adulterated, that they were short weight, that dealers' margins of profit were unreasonably high, that competition was lacking or unfair. For many years it seemed as though complaint of this sort was chronic and futile, that it would waste itself in indictments and produce no convictions. However, after years of complaint and fruitless effort, two

programs were evolved, both of which seem to have become integral, and presumably permanent, parts of the marketing system. These are government regulation, and voluntary coöperation.

Private Marketing Organizations.—These need little discussion, since they are the usual and, it might be said, natural forms of marketing companies and organizations met with at every hand. Ever since the right to freedom of occupation was established, the marketing of goods has been an attractive business. To buy goods for a relatively low price and sell them at an advance, looks to many like an easier way to make a living than to do it by direct labor with nature in the first round of production. In merchandising there is a greater opportunity to use managerial skill of a high order, and to increase the income in proportion to the amount of capital involved, until a much greater income is received than can often be gained from farming. Government control is on the increase, and coöperative marketing is on the increase, but even so, the great bulk of the work is carried on by private enterprise with but little aid or interference by the government. It will, no doubt, continue to be so for a long time to come, in spite of the increasing importance of the conflicting agencies.

Public Control.—Public control is exercised through the federal government, the state, or the municipality. It will not be necessary to discuss the legal control over weights and measures. This minimum amount of regulation is very old and continues to be a part of the more elaborate modern arrangements. Early in the list of public efforts at market control are to be found such acts as pertain to health. Prominent among these are meat-inspection provisions, regulations concerning the care of foodstuff offered for sale, and restrictions on adulterations.

Very different in character were the acts which were passed with a view to helping the farmer, in a positive manner, more advantageously to market his produce. It was evident that marketing acts needed enforcement, and some of them, where the case was in the nature of positive development, needed, instead of regulation, the fostering

care of a helper. This situation led to the creation of state and federal departments of marketing. In the states, the marketing departments are known as *divisions, offices,* or *commissions,* depending somewhat on the nature of the organization. The federal body in charge of marketing work is the Bureau of Markets.

The first of these official departments was the federal Bureau of Markets, created by an act of Congress of March 4, 1913. This act was the culmination of discussion which came into prominence at the time of the Roosevelt Country Life Commission, in 1908. The President, in his letter appointing the commission, said, among other things: "It is at least as important that the farmer should get the largest possible return in money, comfort, and social advantages from the crop he grows as that he should get the largest possible return in crops from the land he farms." Speaking of the work of the government in promotion of agriculture previous to that time, he states further: "Practically the whole of this effort has hitherto been directed toward increasing the production of crops."

The report of the commission concerning the need of governmental aid was clear and unmistakable. The commission came to the conclusion that the farmers were receiving insufficient returns from their labor due to the disadvantageous position of the farmer with reference to the established business systems and interests, the inefficiency of the systems of distribution, the lack of organization. With respect to the inefficiency of the system then in vogue the commission reported that:

> Dissatisfaction with the prevailing system of marketing is very general. There is a widespread belief that certain middlemen consume a share of agricultural sales out of all proportion to the services they render, either to the consumer or the producer, making a larger profit—often without risk—in the selling of the product than the farmer makes in producing it. We have no desire to condemn middlemen as a class. We have no doubt that there are many businesses of this kind that are conducted on a square-deal basis, but we are led to believe that great abuses are practiced by unscrupulous persons and firms, and we recommend

a searching inquiry into the methods employed in the sale of produce on commission.

The idea of public aid in farm marketing was soon taken up by the states. Between 1914 and 1919 nearly two thirds of the states of the Union passed laws providing in one way or another for state aid in, and control of, marketing. In the most of these states work of one kind or another is being done.

The entrance of the states and national government into the marketing field has been resented by some business men as needless interference with private affairs. Such criticism is always forthcoming whenever social action undertakes to limit private enterprise. Extreme individualism is insistent on letting each man look out for himself. The entrance of the state and government into the marketing field is an acknowledgment that each individual cannot be expected to look out for himself. The case hardly needs argument. In the marketing of goods by the manufacturing and merchant class one of two things is present in almost every line. Either the company or individual is large and powerful, or there is a grouping of smaller units for effecting economies. Contrast, for instance, the work of a big centralizer butter company, ready to take advantage of every fact and turn of the market, with the farmer who sells a tub of butter a week, or even with the farmers' creamery selling a few thousand pounds a week. Or, compare the marketing organization of the International Harvester Company with the marketing arrangements of the cotton growers. It is so evident as to need no argument that farm marketing has been, during most of the past, discouragingly inefficient. A recognition of this fact is at the basis of the demand on the part of the farmers that the government do for them certain things which they cannot well do for themselves. Mention need hardly be made of the conspicuous fact that all of these agencies of government taking a hand in marketing operations play a considerable rôle in branches of marketing not at all closely connected with farming. The general work of the retail stores

comes under their purview, as does also the marketing of such household necessities as coal.

Coöperative Marketing.—Coöperative marketing has been under way for at least half a century in America. It was the idea of the great farmer movements, and will be discussed in connection with an account of those organizations. Coöperation had a somewhat earlier start in Europe and has flourished in several of those countries in a remarkable manner.

A brief account of coöperation will suffice for the present chapter. Coöperation means the working together of a group of people for the accomplishment of a given purpose. In marketing it means the performing of some of the middleman work, presumably because there is opportunity to effect savings or to accomplish positive advantages in prices received.

Specific Agencies Engaged in Marketing

Whether marketing is done through public, private, or coöperative channels, there will, and of necessity must, be substantially the same line of intermediaries between farmer and consumer. There will also be, corresponding to the nature of the produce, a line of processes and transactions, substantially the same, no matter who does the marketing. The list of these middlemen and middleman functions are in the main:

Middlemen	*Middleman Functions*
1. Merchants	1. Transportation
2. Commission merchants	2. Grading, inspecting, processing
3. Wholesalers	3. Warehousing
4. Jobbers	4. Financing
5. Brokers	5. Selling at auction
6. Shippers	6. Conducting exchanges
7. Retailers	

These subjects will be treated in the order named, except that selling at auction is omitted, and the middleman is dis-

cussed in a chapter by itself after the different types of middlemen have been described briefly. Some of the subjects will be defined only, while others will serve as the basis of a chapter or more.

The Merchant.—It was inevitable that in the expanding markets a class of men should be called into action to perform the marketing work. These men we may, in a large way, call merchants. They deal in goods which other people produce, buying of the producer and selling eventually to the consumer. It makes no difference, so far as the principle is concerned, whether the transaction is completed by one merchant standing between producer and consumer or whether there is a line of merchants who pass the goods from one to another until they reach the consumer after changing ownership a dozen times. The business of the merchant has developed because of the inconvenience of sale by producer direct to consumer. This inconvenience has several phases. Distance is the main factor in many instances, but in others there are additional occasions for the activities of the merchant, even though consumer and producer are near together geographically. Temperament, the time involved, the supply and quality of goods—any of these and many more may make direct marketing awkward.

The Commission Merchant.—A commission merchant is a man who receives goods on consignment and sells on a commission basis. It is his business to make the best sale possible for his client, the shipper. To the extent that he represents the buyer, or himself becomes the buyer, he weakens his position as a commission merchant. It is his business to get for the goods all the market affords. This he is less likely to do if he interests himself in the transaction as a buyer when presumably he is the agent of the seller.

Some years ago a very large part of the butter of the country was sold by commission merchants, likewise a large part of the vegetables and fruit. At the present time relatively little is so handled. Well classified produce or produce on which it is possible to know prices quite accu-

rately can ordinarily be sold more satisfactorily by other means. On the contrary live stock is sold more often through commission men than otherwise.

The Wholesaler.—A wholesaler is a man who buys goods from producers or from other middlemen who have done so, and in turn sells to dealers, either wholesale or retail. The point is that he deals in quantities greater than are wanted by most individual consumers. He may buy in any quantity, large or small, but sells to those who want the goods for sale again and not for their own use. The term "wholesale receiver" is also in use and serves the purpose of distinguishing between wholesalers who buy from other wholesalers and jobbers, and those who first assemble the goods as they come from the country. Of course even the wholesale receiver buys from the country buyer, that is, from the merchant or shipper, as well as from the producers directly. In fact, much more produce is assembled by some local agency before shipment than is sent direct from the farms. In the parlance of the market, these local assemblers of goods who sell to the wholesale trade of the city, thus further concentrating the goods, are not as a rule called "wholesalers." They are known as "stock buyers," "dealers," "merchants," "shippers," and the like. The typical wholesaler, or wholesale receiver, performs the service of buying goods from the surplus areas and of selling them in the deficit areas. It is not primarily his function to hold goods over long periods of time, but rather to make his money from narrow margins on many and large transactions.

The Jobber.—Rather hard to distinguish from the wholesaler is the jobber. The jobber is, in fact, strictly one type of wholesaler. The typical jobber buys from the wholesale trade and sells to the retailer. The trade does not, however, always adhere to this definition, and uses the term "jobber" to designate many wholesalers, especially those who sell in comparatively small quantities to retailers, and to small tradesmen. The word "jobber" frequently is applied to wholesale dealers who "job their goods about town," that is, go about, or haul their goods

about, and dispose of them in almost any quantity wanted by local dealers.

The Broker.—The term "broker" is somewhat more easily defined. A broker is a go-between for shipper and buyer. It may be said that what he does is to bring buyer and seller into bargaining relations. True, he makes the sales, but he does it in the name of his principal. He does not receive the goods or the money for which they sell. This is, however, the typical broker. As a matter of practice, he may, in a sense, receive the goods at least nominally, and while they are waiting, probably in car lots on the track, undertake to find a buyer for them. More often his task is that of finding goods such as a company wants, and has agreed to take, at a given figure. Thus, the broker may act either as the agent of the producer or country shipper, or as the agent of the wholesale trade, and at times acts within the wholesale trade, helping one wholesaler to sell to another. His work is closely akin to that of a commission merchant, but, unlike the latter, he seldom undertakes to receive goods on consignment, often has no place of business other than an office, and spends much of his time in travel. In some cases the broker does the work of a commission man; at other times he may buy on his own account and become a speculator or wholesaler, but not within his capacity as broker.

Since the service performed by the broker is a relatively small one, no matter how important, he gets relatively small pay per dollar of business. For example, he handles cheese in car lots at an eighth of a cent a pound, or potatoes at $5 or $10 a car, for even less than these figures under some circumstances.

The Shipper.—A shipper is a man who buys in one market and sells in another, thus necessitating the shipping of the goods. It would seem from the term that the business of the shipper was transportation, whereas transportation is to him only an incident, but so important as to account for the type of business done by him. Yet he neither furnishes transportation nor gets any part of his income out of the business. The shipper is useful in two

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particulars: he pays cash for the goods, which otherwise would not bring cash at the country point; and he takes a chance on the amount which the goods are likely to bring in return after shipment. Except when the purchases are hedged, the shipper, therefore, is more or less of a speculator, and relieves the producer of that risk. The shipper's margin is the amount needed to cover the labor involved, the use of his money during the time involved, incidental expenses, risks of more or less importance, and particularly the speculative risk of adverse price changes. As a rule, the shipper is of a speculative turn of mind, and tries to forecast the market, buying accordingly. In most markets this is a difficult thing to do, and the result is that the main part of the income is from a safe working margin based on the prospect of a stable market, with the same probability of a loss as of a gain due to fluctuations.

The Retailer.—The retailer is well known. He is found in every hamlet and in all parts of the great cities. It is his business to assemble goods and sell them in quantities to suit the consumer. In order to do this he must store goods for a longer or shorter time. An exception to the storage function is, however, seen in the peddlers and stall vendors who often buy substantially their entire stock in the morning and dispose of it before night. The bulk of goods handled by retailers is bought from wholesalers, although in many places the quantities bought direct from producers are important.

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CHAPTER V

THE MIDDLEMAN AND HIS SERVICE

Beyond all doubt, the middlemen have come into existence because of the demand for them; because there was work to be done which could better be performed by the employment of such a class than it could be done by the interested parties themselves. That is to say, the producers and consumers who at one time were such near neighbors as to render "go-betweens" superfluous, later came to live so far apart as to make direct trading expensive and unsatisfactory. The middleman is popularly considered an unproductive laborer. This view indicates a failure to understand the fundamental fact that production in the economic sense means, not necessarily the creation of more goods, but the creation of utilities. With this in mind it is obvious that the merchant who makes goods available adds to their value, and hence produces. The main services of the middleman may be grouped under three heads: (1) the assembling of goods; (2) the geographical distribution of goods; (3) the chronological distribution of goods. These things he does as a middleman proper. Incidentally, he does another sort of work, called, for want of better names, processing and packaging. This is in the nature of manufacturing. Processing may consist in treating cheese with paraffin, in working bulk butter over into pound prints, or in driving the moisture out of grain. The word packaging explains itself and will be recognized as a necessary step in the marketing of a vast number of products. It will be admitted without argument that a very large amount of work is necessary in connection with processing and packaging, and that since it must be done in connection with the goods it must be done by the middleman. The drying and cleaning of grain, the candling of eggs, the pasteurization

and bottling of milk, are all necessary. They are rarely done by the producer, and still more rarely by the consumer. They do not constitute manufacturing processes so distinct and costly as to call for the intervention of a manufacturing company. Hence they are incidents of marketing, rightfully so, and are likely to remain such.

Assembling Goods.—The merchant in the first place gathers goods together which are not wanted for home use by the producer. In a vast majority of instances something in the nature of a manufacturing process has to be performed on them between the time they leave the producer and the time they are bought by the consumer. It is not the manufacturing process that we are concerned with, yet it is to a great extent the occasion for passing the goods through intermediate hands on the way from producer to consumer. Cattle must be made into beef. Wheat must be made into flour. Even dairy products are seldom ready for delivery to the consumer when they leave the farm.

With farms widely scattered, and far distant from the consumer; with manufacturing processes taking place at points hardly more conveniently situated with reference to the consumer, it is hardly open to argument that the merchant class is needed in order to get the goods distributed. It is idle to say that it would be cheaper for consumers to deal directly with producers. Not only would it in most cases not be cheaper, it would not be feasible at all. Goods are wanted in such small quantities, at such irregular times, and in such varying shades of quality that by no other means than through the merchant could it conceivably be done. That the farmers or consumers might be able to perform the merchant function through their own organizations is quite another matter, but the managers and clerks of a coöperative store are doing the merchant's work, and hence are merchants.

Distributing Goods Geographically.—So closely related to the last topic discussed as to be almost a part of it, is the distribution of goods geographically. Not only are goods assembled, they are again distributed. It may be a relatively easy matter for a local merchant or for a farm-

ers' company to gather together the produce of a given locality so as to have it ready for sale in convenient quantities to customers. It is not so easy to get the cranberries of New Jersey and the sweet potatoes of North Carolina to the trading points where they are wanted. It is the work of middlemen to effect this distribution. The goods must be assembled, must be sorted and transported, and eventually broken up into small lots and sold to the retailers in thousands of cities and villages. Goods which must go through this process are bound to increase in price greatly on the way from producer to consumer. A well-organized system means, however, relatively little increase as compared with a lack of system. For example, oranges distributed by the California Fruit Growers' Exchange sell for about the same relative prices on a given day all over the country. The same is true of the packing-house products. In contrast to this condition there are frequently very wide differences in the prices of potatoes within short distances, and the contrast is, as a rule, still greater in the case of highly perishable products, such as small fruits and vegetables.

Distributing Goods Chronologically.—This of course is storing, but it includes more than appears on the surface, since it may well happen, and does happen, that the merchant class not only distributes goods over periods of time by holding them in stock, but the holding includes questions of room, of temperature, of finance, and of speculation. It is a service for which the public is willing to pay. In fact, it probably costs less than the unintelligent, haphazard marketing which would otherwise obtain. For instance, butter and eggs would be out of reach of most people in the winter were it not for storage. The problems of putting goods on the market when they are wanted, and in the quantities wanted, are just about as nearly impossible from the farmer's standpoint as the geographical distribution. Until farmers are organized vastly beyond the present condition, the work of the middleman is well-nigh as vital in the feeding and clothing of the world as is the primary process of making the land

produce. The latter processes are as genuinely productive as the earlier.

Eliminating the Middleman.—So far as the general public is concerned, nothing in the way of an announcement relating to marketing will meet with a more cordial response than that the middleman is to be put out of business. Both producers and consumers seem, almost as though by instinct, to resent the presence of a merchant class between them. The producer is always solicitous of the consumer, and the consumer of the producer, respecting the discrepancy between prices received and prices paid for produce. There seems to be a strong feeling that the producer is entitled to the price paid by the consumer, and conversely that the consumer ought to get goods at or near producers' prices. The answer to this may, in one way, be made very simple. Every producer has the right, and probably also the privilege, of getting for his produce the price which the consumer pays if only he can overcome the difficulty of meeting the consumer and bargaining with him. The producer of milk very frequently receives the consumers' price for it. In order to do so he runs a milk route and delivers the milk at the consumer's door. The same is done by some truck growers. They carry their vegetables to the home of the consumer. Likewise, some consumers go to producers for their goods, and by that means get them at producers' prices.

The arrangement may be ideal whereby consumers and producers meet, but strangely enough those who find it feasible do not seem to prosper better than those who deal through other channels. To begin with, not a great deal of farm produce is, or for many years has been, sold from producer to consumer direct. Not much is of such a character as to be even salable without the invention of processes and manufacturing. This is but one of the difficulties, and not the main one. The primary difficulties are the lack of acquaintanceship, the lack of knowledge of the goods, the lack of credit relationships, the inconvenience, the habits of the people now well established. In fact, to do away with middlemen is unthinkable. However, it may

be urged that middlemen are desirable but that there are too many of them. If it is true that there are too many, the proof should be easy, and the remedy obvious. The proof does not seem really to be easy, and the remedy is much in dispute.

The popular view of the middleman is expressed in many striking cartoons. As an example of this expression a description of a recent cartoon will suffice. The occasion was a milk convention. The cartoon was in two parts. The first picture showed the farmer, very lean and dour; the milk distributor, fat and happy; the consumer, ill-nourished. The second scene showed the consumer on the limb of a coöperative tree; the farmer, on the limb of an organization tree, with these limbs so close together that the smiling farmer pours the milk from his pail into the consumer's quart cup, while down below in a sad plight is the distributor. Such a picture of the general marketing situation always makes a strong appeal. However, the reader will agree that before the consumer and the producer can meet in this manner one or both will be obliged to travel a long way from home. The inference may be, however, that the meeting, while less personal, may be effective. Perhaps the plan may be not so much to do away with the middleman as to control him or to change him in character and status. At present the middleman is working for himself, as is the case with nearly all classes of business men. The proposal to do away with the middleman resolves itself, in a great number of cases, into a proposal to replace him by another middleman of whom more may presumably be hoped or less may be feared. The best farmer selling organizations have not successfully done away with middlemen. They may have brought to pass the thing desired, viz., greater economy and a higher price to the producer, without a corresponding increase to the consumers. This is done, usually not by making it possible for producer to deal with consumer, but by substituting a paid middleman, as a rule on a salary, for an independent middleman who depends on the ordinary margins for his income. In many cases this results in a real saving to the

producer, and, since the consumer is at least as well off, in a saving to society.

The Charge That Goods Change Hands Too Many Times.—It is frequently held that middlemen buy and sell among themselves and thereby artificially raise the price of the goods. Another view of this class of dealing may be taken. Suppose a consignment of butter should be received in Chicago and the first receiver should pay the shipper 50 cents a pound for it; a little later another dealer in butter should offer the first buyer 52 cents for it, and before it was sold to the retailer it brought 58 cents. Does it follow that the wholesale butter dealers raised the price 8 cents a pound by dickering among themselves? How such a conclusion can be reached is not apparent. If they were organized into a monopoly it would seem that they would hardly act in so crude a way as to waste time and effort buying and selling among themselves, whereby the cost of doing business would be greatly enhanced. If they are in competition it can hardly be shown that they are maliciously raising prices between producer and consumer, for how could one explain the willingness of the first buyer to take an advance of a modest 2 cents when by going at once to the retailer he could himself get the whole margin of 8 cents? It is the old, old myth of the inhabitants of an island increasing the sum total of wealth of the group by trading jack knives with one another. What really takes place is something like this: The first buyer of the butter pays a low price for it in view of the wholesale price at the time, but he seems to be out of touch with the market. If he knew all the facts and was a good business man he would not sell butter worth 58 cents for 52 cents, yet he does sell it for that price. The second buyer likewise would not sell for 54 cents when the market offered 58 cents, except that to him it either was not apparent, or he was prevented, by some means, from making a direct deal. Thus it would go through the whole line. The conclusion is inevitable; either these men perform a service by making the butter more desirable or more accessible, or they, by their very actions in buying and selling, illustrate the inef-

fectual operation of the market whereby a few of them show ability in getting what an article will bring at a given time, while the rest exhibit their lack of ability by selling for less than it is worth. What the farmer should do, instead of complaining that his produce is sold several times over, is to find why the first buyer is so poor a business man as to be unable to sell his goods for what they are worth. Could the first buyer sell for 58 cents, in the illustration used, it would be but a short time till competition would force him to pay more than 50 cents. In other words, it does not follow that the buying and selling of goods necessarily means an artificial spreading of the margin between producer and consumer, and by no means does it indicate ability among the middlemen to increase price at will. It does indicate a poor functioning of market forces. It means that competition has not operated so as to bring about one price in a single market, and it is hardly an adequate explanation to say that the market is not one market but a series of markets. That is begging the question. In all reason the market appears to be a single one from any except the most technical standpoint, and the trouble with it is that competition fails to work in an ideal manner. There is too much friction, too much tacit reliance on custom, too little enterprise. Otherwise the man who is an efficient seller would manage in some way to buy more directly and so get a much greater margin of profit. This is easy to say but in practice it may look more formidable. For instance, the man who sells butter for 58 cents may use up most of his energy keeping in touch with the retail buyers. A personal relationship often does wonders in business of this kind. While he is tending to the selling end of the business he may be putting less care and energy into his own buying. The result is that he pays a high price. Just as surely as the view that prices are made by the bidding of the buyers for the available supply is accepted as the basic theory of value, it will of necessity be admitted that the last in the line of a series of wholesalers is not responsible for the price. Neither is the first buyer who pays the producer a low price responsible for the unsatis-

factory level at this point. At the same time the situation is a thoroughly unsatisfactory one. The blame is usually attached to the more successful dealers who make the main part of the profits. It might more logically be maintained that the less efficient were the more blameworthy, for if they gave way to more efficient dealers the chances are that the competition would reduce the margin, which in the case of the butter wholesalers would mean a higher price to the producer.

The Regular, or Usual, Middleman.—There is no particular reason for calling the long and loosely joined lines of middlemen regular, any more than to call them irregular, except that they are the usual type found in the markets of the present day. Moreover, for the most part they function so well that the prospect of devising a more efficient system is not very bright. Just as truly in another great part of the business world the developments of recent months suggest strongly that there is tangible hope of devising a more efficient machine for use in the distribution of goods. For instance, retail grocers are finding coöperative buying to their advantage, since alone, a small grocer is a weak buyer.

The usual middleman does one small part of the work. He lacks the capital, ability, or initiative required in the management of a more extended and intricate business, and so jogs along in his rut, making little progress himself and at the same time preventing others from progressing. As time passes, business relationships grow more complex, distances covered by one marketing operation grow greater, and the only provision for meeting the new problems in such a system as we have had is the multiplication of middleman jobs. Thus, we require more wholesalers, selling from one to the other, more brokers, more traveling salesmen, more speculators. All this expansion of marketing machinery means a greater share of the produce of mankind used up in the friction of production, and less actually available for the satisfaction of wants. There are two hopeful remedies which are being applied: integration and coöperation. The latter of these remedies may, or may not,

include the former. It will be considered in a later chapter.

Integration.—The term "integration," as applied to marketing, means the unification of processes and the combining of men in such a manner as to permit the continuous movement of a stream of goods toward a market with the least amount of friction or diversion. The best instances of integration privately operated are to be seen in the work of the packers. They have combined under one management the operations reaching from the stockyards of the central market to the retailers of cities and villages. Within this long line of events come the major work of slaughtering, cooling, curing, cutting, and manufacturing in connection with the meat products; the extraction of drug and other trade products, such, for instance, as fertilizers; the elaboration of them; the shipping, storing, and sale. Thus, the whole middleman process, with the exception of the local assembling, transportation, and retailing, is done by one company. Even the transportation is quite largely within the hands of the packers by virtue of their ownership of private car lines.

Another phase of integration is the bringing together of lines of work which may seem unrelated but can be combined to advantage, because of the possibilities of economies in shipping, refrigeration, storing, or even in sales costs. For example, the packers can ship and store cheese for less, no doubt, than can almost any other company. They can keep it in their refrigerators, scattered over the entire country. With these advantages it is not a matter of wonder that they handle a large part of the cheese. The same is true to a lesser extent of butter. Again, the packer finds that his leading customers, the retail meat dealers, handle a large number of articles other than meat. Why should not the packer save money for the butcher and make some himself by integrating the business of furnishing pickles, ketchup, various canned goods, and cheese? Thus, there is a longitudinal integration of processes and trade along the line of one commodity, and a spreading across considerable latitude from one line to another. Integration is the dominant characteristic of many coöperative com-

panies managed by farmers, notably the California Fruit Growers' Exchange, and the United Grain Growers of Canada. In both of these companies there is integration of both kinds, though the dominant one is along the line of a single commodity in the case of the Fruit Growers, while in the work of the United Grain Growers a great spreading out into related lines is manifest.

Are There Too Many Middlemen?—The conviction that there are too many middlemen is deep and widespread. Put into more concrete form, there is a belief that there are too many traveling salesmen and too many storekeepers, buyers, and shippers, or that a consignment of goods passes through too many hands, such as buyers, brokers, wholesalers, more wholesalers, and retailers. There is no easy answer to the question at issue. The case of the traveling salesman seems to the casual observer the most conspicuous example of extravagance in effecting sales. The salesman visits a merchant in a town at a cost, say, of $25. Why, it is asked, could not the goods have been ordered by mail? They certainly could be so ordered. The cost of the salesman's services must be added to the goods! No doubt the selling price usually includes this item of cost. On the other hand, suppose the traveling salesman were eliminated, what actually would take his place? It would be the mail order part of the time, and part of the time it would be a trip by the merchant to the central market. The latter would cost much more than the visit of the traveling salesman. On standard goods the work of the soliciting agent is not of great importance. On goods which are not standard, that is, where styles are changing, such work is no doubt a means of avoiding many mistakes. It is thus evident that on farm produce and on the goods into which farm produce is readily turned the work of soliciting sales is not as prominently needed as in the sale of dry goods. Nevertheless, solicitors for the sale of packing-house products play a considerable rôle in the sale of such goods to the local trade. The occasion for this is not to be understood without a knowledge of the meat

seller's business. Where competition is not very keen, no traveling salesman can be of much assistance. With keen competition, and especially in case the demand varies from time to time with respect to the quality of meat wanted, a representative of the wholesale company furnishing the meat may be of great assistance.

When all is said and done, the popular view of the middleman question is a demand for competition, assuming that where competition is present and active prices must be as favorable as may be expected. Nothing could be further from the truth. Competition does not insure favorable prices. All it insures is that the margin made by a given competitor will be held to the general level of margins required by the particular competitor who under the circumstances is the pace-maker. This may result in a narrow or a wide spread between the buying and the selling prices. For instance, in a given town there may be two grain elevators run under separate managements; suppose they are of about equal size and are each doing about the same share of the business. One may be just existing, while the other is making a handsome showing; it follows, in case they are both small units, that the one is doing well largely because the other is run on an expensive basis. Since the poorer one must have, let us say, 6 cents a bushel for handling wheat, the more efficient one has the choice of handling it at the same margin, or of bidding higher for grain and cutting the margin down. Possibly a very enterprising man would prefer the latter if he had any assurance that by running his competitor out of business he would be able to hold the trade for himself. He knows, however, that should he attempt to run the other out he would resist for a considerable time, and the fight would be costly. Should he make the fight and win, sentiment would be against him. He would be accused of operating a monopoly and new competition would probably be forthcoming soon. The result is that the business man of ordinary judgment prefers to let well enough alone, and so goes ahead depending on the margin of profits which he

can make over the no-profit competition, rather than flying to the ills of aggressive competition, the outcome of which is precarious.

The public pays the cost of inefficiency in a case like the above, complains about too many middlemen, but is more sensitive on the question of what is considered too few. The feeling that there are too many in numberless instances is correct, and what to do about it is fairly clear. Where there is sufficient enterprise among the farmers a coöperative elevator will most likely prove profitable, not because there is any magic in coöperation, but because it can do what competition cannot well do, that is, enlarge the business to a profitable size and so run on a narrower margin. A concentration of business under one management of this kind does not invite competition to any great extent. The same answer can hardly be given to the question concerning the more desirable number of retail stores, since coöperation in that line of undertaking has not reached the same stage of successful development as in the handling of grain.

A relative increase in the number of middlemen means one of two things: either a large number of competitors within a given field, or the further division of labor. It would be a hard matter to get statistics of a conclusive nature to show the division between these two classes. However, it is safe to say that the main tendency to increase in numbers is found in connection with the field of increased division of labor. This may mean anything from the factory system of manufacturing and selling butter, in contrast with the domestic system, to the employment of additional help in delivering groceries in response to a demand for better and more service in that work. Merely to point out that the number of middlemen is large, or that it is on the increase, is no argument for or against the middleman system. The real question is not the number of middlemen, but the economy of their contributions. Do they or do they not render service in proportion to their pay?

The marketing process may be viewed as a series of zones through which goods pass. In the marketing work in

which integration has not developed it may be shown that the cost consists of a series of expenses corresponding to the zones, and amounting to the charges which the relatively inefficient middlemen in each zone must have. These inefficient dealers, or merchants, or functionaries of whatever sort, are the marginal men whose services are needed and who are therefore able to determine what may be termed "the width of the zone." The more efficient pocket their savings as profits. The advantage of an integrated market is that it enables the interested parties to close up some of these wide gaps by introducing greater efficiency, possibly simplifying the operations, probably employing fewer men; and by decreasing the numbers of independent entrepreneurs it can put a part of the work down to the cost basis. This often means the replacement of a class of men who have previously employed themselves, making a living, and part of them a competence, by a class of men working for a salary. The men on salary may make, indeed, more than the average of the independently employed groups which they replace, but they will seldom make as much as the best of them. To the producer and to the consumer, sometimes one benefiting, sometimes the other, sometimes both, the integration intelligently done, means that these zones are spanned by the efficient instead of the inefficient marketing agents, and therefore the whole cost is lessened. Outstanding examples of successful integration are found in both private and coöperative marketing, and whatever is done or not done in the future it would seem that to destroy the integration would be a step backward.

Conclusion.—It may seem that the foregoing discussion fails to answer the question as to the proper number of middlemen in general, or in any particular case. Do we have too many? There is no general answer. One of the most significant observations is that the claim that there are too many, and the suggested remedy, resolves itself into a proposal to put a new middleman into the place of an old one. The cheese-selling federations are of this kind. They may seem to do away with a large number of middlemen. What they do is to integrate the process of sale and put paid

employees of the federation in the places of independent agents, with a slight decrease in the number of men in the line extending from producer to consumer. The middleman service is there to be performed, and whoever does it is in a large sense a middleman, even though hired by producer or consumer. Socially there is the same interest in a reduction of costs in marketing that there is in manufacturing or in growing crops, no more, no less.

From the standpoint of the producer what is wanted is economy. This may mean an increase in the number of middlemen instead of a decrease. For instance, the storing of grain can, no doubt, be more cheaply and satisfactorily done at the terminal warehouse than at the farm. This would mean the enlargement of the middleman function. It might mean the increase of middlemen of the independent sort, or the expansion of a coöperative company in the way of integration. In the latter case it really means the assumption of the middleman service involving investment of capital and employment of labor.

The middleman operations are to be neither commended nor condemned. They are rather to be comprehended, and after they are comprehended the pertinent question is whether or not the service is well and economically performed. If it is done at a cost which seems to the interested parties to be too high they have the privilege, and in a sense the duty, of going into the business with the prospect of effecting a saving. If the service as now performed is rendered for a reasonable consideration the chances are that neither producers nor consumers will gain much by attempting to do the work themselves. Scientific information should precede reform, and likewise a workable knowledge of the business involved should precede the assumption of it on the part of the reformers. There is a vast amount of waste and inefficiency in the work of the middleman, and so there is in all other parts of economic life. Whenever the waste and inefficiency become conspicuous in any one line, or when the remedy becomes obvious, a reform measure should be tried. On account of the early application of the natural and physical sciences to pro-

duction and manufacturing processes, and the slow adaptation of economic principles in their application to marketing, it happens that the middleman processes deserve, and are receiving, particular scrutiny.

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CHAPTER VI

TRANSPORTATION AS A MARKET FACTOR

The dependence of agriculture upon transportation facilities admits of no argument. The same dependence characterizes manufacturing. Without transportation opportunities and devices, life would be confined to the conditions of self-sufficing economy—each group within the territory tributary to a given market. A few hundred years ago England got her wheat supply from her own fields, with little possibility of effecting a distribution of it even over the island. Then came shipping which connected them with the fields of other countries, and roads which unified their own country. During the past century, but more particularly during the past half century, the English markets have been within easy reach of all the important grain fields thus far developed in the world. When the cost of carrying a bushel of wheat from the Dakotas to Liverpool got down to half a dollar it meant that, from the standpoint of commerce, the Dakotas were as near to Liverpool as towns in adjoining counties had been before the days of improved roads. Transportation means the leveling down of prices and the annihilation of distance.

Who Pays Transportation Costs?—The simplest and truest single answer of any that is likely to be made to the question, Who pays the cost of transporting goods? is that it is paid by the consumer. How it can be made to appear that anybody else pays the freight does not occur to the mind of a disinterested party. It would seem that goods offered for sale in a given market would, through the bidding of buyers for the quantity in sight, bring a figure which would cover the necessary costs of production, and transportation charges are one of these costs, or the goods would be offered in smaller quantities until the higher price per unit was sufficient to cover the expenses. If this general explanation is correct, it ought to hold good at both ends

of a line: the end where farmers' produce is being sold, and the end where farmers' supplies are being purchased. Nevertheless, it has long been the belief among farmers that they pay both freight bills. They have been strengthened in this belief by campaign speakers arguing the tariff question, and (harder to understand) they are still being told the same thing by the agricultural press.[1] Apparently this explanation is evolved by an unconscious transition from one to another of two points of view respecting the manner in which prices are made. When thinking of what the farmer gets for his grain, the selling price at the central market is taken as the starting point, and from this is deducted the cost of getting the produce in question into the market. Thus, manifestly, in a given case, the producer has just so much less for his produce as equals the transportation charge than he would have had had he been able to hand over to the buyer, without intervening costs, the goods in question. Respecting the other phase of the double transaction, that of buying finished goods from the same general market to which raw produce has been shipped, it is made to appear that the demand is always rigid, and, in consequence, that a price set in the central market will have added to it the amount of the transportation charge, no matter how high, and that the final price will be correspondingly greater.

As an illustration of the way this doctrine would work, were it true, an actual shipment or two of farm produce may be noted. A carload of ear corn was shipped from Iowa into Wisconsin. The cost of the corn at the loading station was 31 cents a bushel, the cost at the point of destination was 65 cents, freight charge exceeding the amount received by the farmer to the extent of 3 cents a bushel. The Iowa farmer thinks the high freight charge came out of his pocket, for would he not have received a higher price had the freight bill been less? The Wisconsin farmer who bought the corn arrives at the conclusion that he paid the freight, for would he not have obtained the shipment at

[1] E. g., see *Prairie Farmer*, March 19, 1921.

less per bushel had the freight bill been less? Can they both be right? In the main they cannot, though there is a measure of truth in each version.

The trouble arises over the selection of the basic price. If corn is worth 31 cents a bushel in Iowa instead of 48 cents on account of a doubling of freight rates, it is clear that the cost comes out of the producer. This is on the assumption that the price in the central market remains unchanged and that an increase in freight rate of 17 cents a bushel occurs. To decide that the producer pays the added freight charge is no doubt correct in this case, but it has to do with the immediate, not the ultimate, result of the changed rate. As a consumer, the farmer is keenly aware of the fact that high freight rates mean high prices for the goods which he buys and on which the charges are paid. As a producer, he may not see that an added cost for carrying the products may, and probably will, result in a higher selling value at the other end of the line. If this occurs the consumer may very properly believe that he is paying the added charge. Thus we arrive at the conclusion that the consumer of any goods which are sold in sufficient quantity to bring about a normal price for themselves will pay of necessity in that price the different items of cost, meaning, of course, the cost of that portion of the goods which may be looked upon as marginal, or which would not be produced were the price lowered.

This does not mean that the farmer may rest content in the belief that whatever increase may be made in transportation charges concerns him only as consumer. Far from it! Increasing the charges for transportation amounts to the same thing as increasing the distance between producer and consumer, and this works to the disadvantage of both. It is well known that again and again agricultural products have been produced too far from the market to be worth anything. Examples are hardly necessary, but one or two may serve a purpose. Some years ago wheat was grown in southeastern Washington by some pioneer farmers who had been tempted to buy land because it was cheap and productive. They grew some fields of wheat

and burned them without cutting because they could not discover any means of getting the grain to market without incurring more expense than the price it would bring. The consumer would, no doubt, have paid the cost of marketing had the wheat been shipped, but it might not have left a cent for the producer. A few years ago there came a great cry of distress from the settlers on the Truckee-Carson reclamation project. They had raised a quantity of alfalfa of undoubted quality and there was no sale for it; it was hardly worth loading into the cars. The whole trouble was that hay was cheap and they were too far from market. It is cold consolation to such people to know that the consumer pays the transportation charges. The fact remains that the producer feels the need of a real share in the division of the proceeds. He cannot get it, however, by complaining, or by legislative enactment, except as the complaints and the laws gain for him the right to fair treatment as compared with others interested in the transportation adjustments.

Freight Rates Not Infrequently Prohibitive.—Not only does it frequently happen that rates are so high as to take all the farmers' profits, but they are so high as to stop shipment, which eventually means stoppage of production. The increase in freight rates during, and following, the recent war illustrates this point. For instance, great quantities of cabbage and other vegetables are grown in the Rio Grande valley for northern consumption, especially for the winter and the spring trade. The San Antonio district is famous for onions which are shipped north by the carload. During the winter of 1920–1921 the movement of these vegetables was extremely light. Freight rates had been advanced over 100 per cent, and the demand was not equal to the added strain. As a consequence the vegetables rotted, and the growers were left without income.

In Nebraska a farmer shipped eleven carloads of hay and received as his net price for the total amount $16.50. A Montana sheep grower shipped a car of low grade sheep to market and received in return 54 cents a head. The hay and the sheep may both have been below standard, demon-

strating the fact that with freight rates high only goods near to market or high in quality can stand the cost. These illustrations are not offered to prove that any particular rates are too high, but merely to show the dependence of production on rates which will permit the products to be grown and carried to market. The farmer is concerned about the rates because he needs to market his produce.

Freight Rates Pivotal in Agricultural Geography.—There is no more fundamental fact connected with agriculture than its relation to transportation charges. Cheap transportation extends the producing area, while dear rates restrict that area. A class of farmers in a given section of the country may be made to contribute to the national food supply by giving them such rates as will allow for production costs after the rates are paid, or, once they are so contributing, an adverse rate change may cut them off entirely from the market. As an example of the latter situation, the Montana farmers in the winter of 1920–1921 had a considerable quantity of surplus alfalfa hay, but it was not worth shipping to the eastern market because of the increase in freight charges.

An increase in freight charges after production has adjusted itself to the former lower rate will eventually do one or more of several things. To begin with, it is necessary to ascertain what happens in the way of changed consumption. Will the consumers pay the added price and take as great a quantity? It depends on what the goods are. In the case of staples, such as flour, sugar, and potatoes, the chances are that they will have no more attractive alternative and so will pay the bill. To the extent that this is the outcome the result on production will be, in the first place, a readjustment of producing areas. For example, there will be an added advantage to the producer near the market as compared with the distant producer, and greater effort will be made to produce the goods near at hand. This is exactly the same thing in kind that follows the enactment of a tariff on a certain commodity. The

tariff is in the nature of a transportation charge, that is, it is one of the costs of getting the goods from a distance—and is an added incentive for producing such goods at home. Thus high freight rates act as an incentive for more intensive culture, while the outlying districts find the advantages which they formerly enjoyed, cheap land, for instance, relatively no longer so important.

Aside from a possible calling in of the outer defenses of agriculture by increasing transportation charges, it may happen that Mahomet will move to the mountain in the form of a relocation of industry and of its attendant centers of population. If, for instance, freight rates should rise to such a point as to offset the advantages which industries now enjoy in the nearness to labor supply, in business connections, and in the investment in plant which cannot be moved, it will be to the advantage of factories and mills to move nearer to the source of material supplies. By this means they will ship more of the finished product and less of the raw material over the greater distance.

The same change will be forced within the agricultural industry itself. The farmers in the newly developed Truckee-Carson valley could not sell hay because it was not sufficiently valuable per ton to stand the cost, just as the hay in Montana could not stand the new rates. The Truckee-Carson farmers should have planned on growing a crop that could stand the freight charges and leave something for them. The Montana farmers planned well enough, but the drought drove them out of the cattle business. Iowa has produced more hogs than are raised in Illinois, while the latter state has marketed a great deal more grain as such, showing the influence of nearness to market on production. High rates will make this territorial division of labor all the more pronounced. It is more than possible that some marginal land should become sub-marginal; that the outer zone of live-stock production should be widened by extension toward the population centers; and that more intensive farming should result on the zones still nearer these centers. The moving out of groups of industrial

workers toward the less densely populated districts is a counter force which may work against such a readjustment.

Cheap transportation is a great factor in territorial division of labor. It permits the cultivation of distant fields, even poor ones, and the concentration of great industrial centers at points advantageous under the circumstances from a business point of view. The development of the railroad, the steamboat, and particularly of the fast freight service is the outstanding example of this influence. An increase in freight charges is a force working in the opposite direction, but if such increase is in keeping with the general rise in the price level its influence will be neutralized.

The Postage-stamp Theory of Rates.—In order to do away with some of the complications above mentioned, to give society the benefit of connections with outlying districts, and to effect a kind of justice among farmers, it has often been proposed to divide the country into a few wide zones within which freight charges should be equal without regard to distance. In a rough way this is exactly what the railroads have done. They have a large number of base points to which the charges from many other points, differing in distance, are equal. The same thing is done locally by many companies and individual buyers. For instance, the Wisconsin Cheese Producers' Federation pays the freight charges on cheese from the different stations to a central point, deducting the charge from the total receipts and apportioning the balance on the quantity of cheese. This means that the producer a hundred miles away pays no more than the one ten miles from the concentration point. In gathering cream or hauling milk it is usual to make the same charge without respect to distance. However, the plan whereby the postage-stamp system could be applied to the country at large, either as a whole or in zones as is done in the parcel-post system, appears visionary.

Relative Advantage the Primary Question.—So far as an individual or group is concerned the main thing is rel-

ative advantage. If one farmer is able to get his goods to market for less than it costs his competitor, he will be the gainer to the extent of the difference, since his goods will sell for the same price. A car-lot shipment compared with a small quantity going by way freight is a good illustration, and the difference may equal from 5 to 10 per cent, or as much as the usual profit on a year's transactions of the average farmer. If one neighborhood or a whole state has an advantage over other neighborhoods or states, it may mean a difference in prosperity of much moment before a readjustment, such as migration from one place to the other, will effect a balance.

When an advantageous rate becomes general in its application, that is, when all farmers, for example, have the benefits of it, the result is to a great extent a nullification of these benefits so far as they are concerned. The western farmers apparently wanted the railroad more than they wanted anything else, and it made life tolerable in the West, but it failed to bring immediate prosperity because its advantages were so widely diffused. It broke down the very market it enabled the farmer to reach.

Effect of Changing Rates.—At the present time, we are, as a people, fairly well adjusted to the distribution of productive forces and their contributions. A radical change in charges means a readjustment. In this readjustment the farmer is one of the first and worst sufferers. That it will be just as well after things again settle down does not satisfy his sense of justice. For even after the theory is invoked to prove the contention that the consumer pays the transportation charges, the farmer is right in his conviction that outside the immediate vicinity of great markets he is left with less money. What has really happened is a widening of the gap between producer and consumer and both are worse off.

The most important danger to the producer in an increase in freight charges is that the consumer will buy less as the price rises, thus bringing about relative overproduction. Hence, the conclusion is reached that for both the producer and the consumer the lower the costs

of transporting goods the better, for although the consumer pays the cost he has less with which to buy because of the charge, and therefore less to put into his own productive business. Whatever goes into friction fails to contribute to the work of the machine, and transportation is in the nature of friction.

Some Practical Aspects of Transportation.—Concretely, the question of transportation comes down to a matter of hauling produce to a country station, transporting probably by rail to a central market, possibly reshipping to a mill, a factory, or a packing plant, or exporting, ordinarily by water. Variations are introduced by using the trolley lines, and more particularly motor trucks.

From Farm to Local Market or Station.—The distance of this haul varies widely for different commodities and for different parts of the country. Studies have been made showing that cotton is hauled from seven to fifteen miles; wheat nine miles; corn and hogs about six miles. While these distances are not great from the standpoint of the total mileage over which the goods must eventually travel, the type of road and facilities for hauling, such as horses and wagons, result in a heavy charge. According to figures for the period just before the World War it cost about 6 cents to haul a bushel of wheat to market. At 1921 prices, the cost would be somewhat higher, perhaps 8 cents. This means a charge of about 30 cents per ton per mile. On the railroad before the recent increases in rates, a ton could be shipped at three fourths of a cent a mile, or forty times as far as by wagon. Thus wheat could move 360 miles by rail at the same cost that would be incurred in hauling it to town. Whether or not this balance is to be restored cannot be predicted. At the high rates of 1921, the railway cost is not so much cheaper than wagon cost, as it formerly was.

The farmers' interest in good roads from the standpoint of hauling loads is said to be no greater than, if as great as, is his interest from the standpoint of light driving and automobile travel. While this may be true, the fact remains that the cost of hauling by wagon is reduced at least one

half through the application of a hard surface to a country road. It was estimated that the cost of hauling the wheat crop to town some years ago when wheat was worth a dollar a bushel, was 7.13 per cent of its value. While the price of wheat is somewhat above a dollar, recently the costs of hauling are likewise higher than when the calculation was made. The chances are that where horses are the motive power, it is still costing as high a percentage as at the earlier date.

The cost of hauling corn to market at the time of the same study, was 10.2 per cent of its value, while cotton, worth more per pound, was hauled for 1.4 per cent. The cost of hauling wool was 4.4 cents per pound, the haul being a long one.

The cost of primary haulage is dependent on several factors, of which distance, conditions of roads and character of motive power are the most prominent. Other things being equal, the cost will vary directly with the distance. With the price of wheat at $1.50 per bushel, and the cost of hauling 30 cents per ton per mile, the whole value of the wheat would be used up in a haul of 166 2/3 miles. At a dollar a bushel it could be hauled 111.1 miles. This would mean that at these prices the cost of hauling to town must be kept at a figure so low as to leave a sufficient reward to the farmer to keep him in the business. The figures showing the distance over which a product could be hauled at a cost equaling its selling price is of interest only as illustrating the distinct limitations of the agricultural industry with respect to distances from the market which has to be reached over country roads.

The Motor Truck.—The motor truck has proved its usefulness in enlarging the farmers' sphere of action. It has come into use to a great extent in the West where distances are great and where the roads, while perhaps not good, usually are passable. In the East and Middle West the motor truck is used mainly where roads have been improved by some manner of hard surfacing. The influence of the truck under these conditions is to make it feasible for the farmer to take or send his produce to market with-

out the delays incident to much railroad shipping, and so gain the advantage of arrival at the market at the best time of day, and with produce in better condition. For instance, hogs have been delivered for some years past at the smaller packing plants by motor truck. During the hot weather of summer the trips are made mainly at night. A motor truck can carry a fifth, or a quarter, of a carload of hogs, and the danger of loss in transit is nearly eliminated. The length of haul is frequently more than a hundred miles.

Applied to many different products, the advantages, in addition to those mentioned—choice as to time of hauling and less loss in transit—are that the seller has a much wider range in selecting his market, is more likely to visit markets and establish contacts with them, is enabled to handle less than carload lots to advantage, avoiding, on the one hand, the necessity of selling to a local dealer, and, on the other, the necessity of causing the railroad to rehandle in assembling a carload.

The development of good roads and the use of the power truck amount to much the same thing as the coming of a railroad to isolated farming districts. Thus, socially, it means the wider spread of farm operations and eventually the better and cheaper hauling of farm produce to places where it is needed. This will be a gain in the first place to the farmers who adopt the practice, and eventually to society, including the farmers, if it ever comes into general use.

Good Roads and Farm Values.—Some years ago when farm land was worth about half as much as at present (1921), the Department of Agriculture estimated that farm lands increased in value anywhere from a few dollars to over $25 per acre on account of road improvements. It is extremely difficult to reduce the effects of an improvement of this kind to an average. In some cases the increase would be very small, while in others it may mean the raising of land from a low to a high economic use. It may mean the coming into the neighborhood of a different class of people, with high ideals

and superior capabilities. Such a series of events following in the train of good roads may easily raise land values one hundred per cent, even after a fair figure has already been reached. Keeping in mind always that roads mean accessibility to markets—moreover, to markets of all sorts—it is plain that the value of the improvement is going to depend on its relation to classes of people and types of markets.

The student will do well to observe the situation in his own neighborhood. One farmer delivers milk at a creamery over a poor road; another farmer sells his milk for city trade at ten per cent higher price because he is favorably located with respect to a good road. A ten per cent difference in gross receipts may mean many dollars per acre in value of land. Not all could sell milk for city trade, but all could get some advantage out of better facilities for country transportation.

The interest of the farmer in good roads should center in a plan for a network of reasonably good roads rather than a few superb trunk lines. The latter facilitates pleasure driving; the former is a necessity in getting to market, and a market is indispensable in modern agriculture.

Railroads and Markets.—No extended discussion of the railroad question will be attempted. Transportation is a big subject in itself and is virtually a phase of the marketing question. A few paragraphs, however, are necessary to the presentation, even in outline, of the significance of transportation in the marketing field. Railroads mean the difference between settlement and wilderness. They are a full hundred per cent of the difference between relative nearness to market and hopeless distance away, in the majority of farm communities.

Fast Freight.—The zone of production is extended, not alone by the lowering of freight rates, but just as readily by lessening the time required for moving such produce as cannot stand delay. This situation has been met by the railroad in the fast-moving freight trains, such as are used for fruit, milk, and live stock. Some of these arrangements are in connection with passenger service, but most

of them are strictly freight. Special classes of fast freight are handled by private car lines, the outstanding example of which, so far as agricultural produce is concerned, are the private car lines operated by the packers for transporting packing-house products, fruit, dairy products, and perishables generally.

The private car-line cars, when used by the railroad company for carrying freight not belonging to the owners of the cars, are hauled on a mileage basis.

The occasion for the maintenance of private car lines by companies with perishable goods to move, or the existence of independent private car lines designed to carry goods for other parties, is the inability or the unwillingness of the railroad companies to provide such service. Half a century ago, when the demand for cars of this sort assumed tangible form, the railroads doubted the wisdom of such an innovation on the grounds of profit. It was feared that the cars would be wanted during a short season—the hot months of summer—and would then stand idle or be used up in work which could be done as well by less expensive cars. It is claimed by the packers that they established the private car lines of necessity in order to get their products to market in good shape. One thing at least is certain: the special cars with provision for refrigeration, ventilation or heating are highly necessary in the transportation of perishable produce. The charges for service of this kind enter into the cost of getting goods to market just as do any other transportation charges. The problem for the producer is to get his produce to market in desirable condition and at lowest cost. The question for the consumer is that of getting produce from the farm to the place of consumption at the lowest cost. The advantages are mutual. While too much profit made by the grower brings competition with low profit, so too high charges in marketing will mean fewer sales, less profit, and eventually higher prices.

Freight Rates and Prices of Farm Produce.—Mention has already been made of the influence of a sudden increase in freight rates whereby the cost of moving freight reached

a higher figure than the amount left for the farmer after it was paid. These instances, moreover, are not extreme but are to be found on every hand in districts far from market. For example, the Dean of Agriculture in a mountain state believes that it will be impossible to grow either wheat or flax in some parts of the state where these crops have previously been profitable unless freight rates are reduced. This illustrates the obvious fact that cultivation is limited in its geographic extent by market conditions, and when marketing facilities are made more difficult, the circumference of the cultivated area shrinks. In southern Idaho alfalfa hay was worth $6 a ton in the fall of 1920, while the freight rate to Omaha was $15. The hay did not move and became a drug on the market even at $6. The railroad made a special concession of $5 a ton for a few months and the hay moved, raising the price a little in Idaho and holding it down a little in Omaha.

One of three things has to happen: the freight rates must be lowered; the price of produce must rise high enough to stand the charge; or agriculture and the industries must be readjusted geographically so as to avoid the long hauls of bulky produce. Since the general level of prices, particularly the prices of produce closely connected with world markets, cannot respond at all readily to the influence of a change in rates, the result is that the producer receives the first shock, as is abundantly shown in the wide differences between prices at the local shipping point and at the central markets during the present period of high freight charges.

Summary.—The development of adequate transportation facilities means the establishment of nation-wide and world-wide markets. The extension of the markets is the same thing as bringing producer and consumer together. Whether they are brought as near together as is possible is another question. The advantage of adequate transportation at the lowest cost is mutual. The advantage which a small group may get by concessions or opportunities not open to every one else will accrue as a profit to those im-

mediately affected. When the advantage becomes general the individual loses his special, personal gain in the form of a larger direct income and in lieu of that partakes of the general welfare growing out of the easy exchange of goods.

The direct relation of transportation charges to prices has been touched upon. As a rule the share of the consumers' price attributable to transportation cost is not very high in the case of farm produce. It is a much bigger item, for example, in coal and lumber prices. Freight charges make up a small part of the selling prices of such goods as dairy products. For example, butter can be sent a long way for a fraction of a cent per pound, especially when shipped in car lots. Cheese travels farther and so costs more, especially when going, as it so often does, in less than car lots. The average cost of shipping cheese under the old rates, that is, before the World War, was 1.25 cents per pound, or about 5 per cent of the retail price. At double the rate for transportation, the percentage has increased, since the retail price of the cheese has not doubled.

The cost of shipping live stock is relatively small, that is, in comparison with the cost of shipping hay or grain. For example, in 1920 it cost from 2.5 to 7.5 per cent of the wholesale value of hogs to ship them about 200 miles. Where there was a return shipment of meat the total shipping charge might run approximately to 10 per cent of the live value.

The cost of shipping fruit under normal conditions is frequently one sixth or one tenth of the selling price. On vegetables the shipping cost is anywhere from one tenth to a very large, even prohibitive, charge. On wheat the transportation charge may easily run as high as 30 or 40 per cent of the selling price. In this we have a very interesting example of the incidence of the charge. The price of wheat undoubtedly corresponds closely with the export price. This being true, it is a clear case that for the moment the consumer of flour pays little more for a sack than before the increase in the rates, while it is

equally clear that the farmer receives for the wheat an amount less to the extent of the increase in the charge. Eventually the supply of wheat might fall and the cost of transportation charge be borne in part by the consumer in a higher price for less goods. In the first instance the supply is assured and the producer must get his goods into the market.

As an item in the cost of living, transportation charges from farm to market, while usually smaller than is imagined, are of about equal importance to both consumer and producer, and should be as low as circumstances will allow. To lessen the cost is like bringing the community within a smaller circle, and society cannot benefit itself by supporting a needless line of transportation agencies, or agencies charging more than the necessary figure for doing the work. The work has to be done, however, and, like all productive work, will contribute most to social betterment and welfare when done at the lowest cost.

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CHAPTER VII

GRADES, STANDARDS AND INSPECTION

A great deal of grading, sorting and standardizing is closely associated with assembling. For instance, wheat on a given farm may vary greatly in grade. The owner may be enterprising enough to ship direct to a commission house at the central market in the hope of saving the cost of handling by the local buyer. He may, however, easily have two or more grades of wheat, yet only enough for a carload altogether. To ship the two grades mixed will mean, one time with another, a lower price than the average of the two grades sold separately. There is almost no way out of the dilemma except the assembling of a sufficient quantity to permit the shipment of the different grades in a corresponding number of different cars. It is of no avail to insist that the value of the wheat is just as great mixed. The trade is discriminating, and while one miller might find the mixture to his liking, the great majority will not. Thus grading and assembling are closely related functions, the one hardly being feasible in a large way without the other. This fact is recognized in the practices of substantially all companies handling agricultural produce. Not only do independent private companies assemble goods for sorting, grading and packaging, but coöperative companies, with economy as the watchword, do the same. To the outsider it may seem like a needless middleman process done for the sake of increasing the spread between producer and consumer. To the initiated it is an inevitable step in intelligent, economical marketing. Who should perform this service is quite another question, but that it must be performed is not open to argument.

Why Grading Is Necessary.—Whenever people deal with one another it is essential that they use some language

common to both parties. The better and simpler the language the more expeditiously the ideas may be conveyed. For example, if a discussion should arise concerning the merits of different brands of baking powder, whether the discussion centered on the scientific analysis or the practical results obtained by the users, there would be little or no question as to identification. The thorough standardization and branding makes the grading within the groups unnecessary. In fact, the grades have taken the form of brands and labels and are accepted as indicative of the contents.

Contrast the situation in a case like that of the baking powder with that obtaining in farm produce. For example, suppose a miller in Wisconsin wants a car of wheat from North Dakota. Almost the first question he will ask is, What will the wheat grade? After finding out the grade he will decide whether or not he wants it. In all probability he cannot buy the wheat from a farmer, since the farmer does not, as a rule, know the grade of what he has to sell. Neither is it worth while to say that the farmer should know his own goods. He does not have the knowledge required in determining grades in a great number of cases, nor the equipment with which to make the determinations. A farmers' company may do the grading, and in some instances the farmer may do it himself, but as a rule it cannot be left to the individual.

Grading is necessary, then, in order that an intelligent conversation concerning the goods may be carried on, and in order that both parties undertaking to bargain may have the same definite facts in mind. Without such common terms and understanding it is nearly always necessary to see the goods, or samples of them, and this conditions and hampers the selling process. It means that markets must be local, or slow, or expensive, or all of these. The goods that are so graded as to permit the quality to be expressed in a few words can be bought and sold without reference to their physical location, by telegraph, by telephone, by letter. They can be sold on contract for subsequent delivery as readily and satisfactorily as for cash

and immediate delivery. Bringing farm produce within the realm of graded and standardized goods is to bring order out of chaos. Without it the farmer cannot compare what he receives with what his goods later sell for, since he does not know what he has sold.

Standard Measures and Packages.—Closely allied to the grading of produce is that of standard measures. For example, the census figures have always been somewhat less exact than they otherwise might be on account of the lack of system in measuring produce. Fortunately this applies more to the lesser products, such as truck and fruit, than to the leading products. Berries are handled by crates, tomatoes in baskets, and potatoes in barrels, yet only recently are these containers being standardized for the country at large. The crate may hold twelve or sixteen boxes, the basket may be of any size from a few pounds to a bushel, while the barrels may vary by twenty-five per cent. So long as we continue to use the old medieval measures we shall have troubles which are inherent in them. But even so, the evils may be minimized by prescribing the standard containers in which produce may be offered for sale.

Standardization of both package and contents is feasible and has already passed the experimental stage. The work was started by the states, New York passing one of the first laws. This law applied to the size of the apple barrel and the character of the fruit required for a standard grade. Later the federal government passed an act prescribing the size and content of the standard apple barrel.

Within the period 1912-1921 a very large number of acts pertaining to standardization were passed. The federal government prescribes the standards for upland cotton, corn, wheat and oats; also the standard containers for small fruits and vegetables. These must be used in all transactions involving interstate shipments. A large number of permissive and tentative standards have been promulgated by the government, such as for potatoes and onions, live stock and meat. A considerable amount of experimenta-

tion and education are required in connection with the standardizing of commodities such as these.

The Applicability of Grading.—Until the past few years it had been believed that farm produce could not be reduced to standards and grades. This view was held because of the great and almost constant, though unpredictable, variations in the quality of farm produce. Since farm produce never had been graded and standardized it was believed that it never could be. The reversal of the opinion came from the farmers themselves. It had long been the practice of business men dealing in farm produce to do a certain amount of grading for their own trade. There have long been various brands and grades put out by the dealers in the goods, such as pork products, cheese, butter and many other articles, particularly those on which certain processes had been performed. As the farmers developed coöperative companies, such as grew up in Denmark from 1888 on, it became necessary to bring their produce to a standard which could be designated by a word and so make it possible to do business expeditiously and without the inspection so necessary in the purchase of ungraded produce. Out of this need grew the grading and branding of bacon, butter and eggs, whereby the products became as well known on the English market as staple manufactured articles. In fact, Danish bacon and butter are substantially standard manufactured articles, while eggs are brought up to a standard of freshness and size which makes them a known quantity to the buyer.

In America the grading and standardizing of agricultural products has reached a high degree of stability and reliability in such commodities as oranges, apples, and other tree fruits handled coöperatively. The organizations handling these products prescribe the standards and enforce them. Progress has been made along the same line in the marketing of butter and cheese, but thus far none of these brands is of dominating importance. They are, however, showing the possibility of great achievement. The success of the "Sunkist" oranges and of the box ap-

ples shipped by western growers furnish a great lesson as to the desirability and advantage of making agricultural produce known by a name.

It is not many years since the feasibility of grading and branding apples was first recognized, either in the trade or out of it. An example of its success was furnished by a fruit dealer in answer to the question why apples from the West sold for more than equally good apples from a near-by Middle West state. He replied that he knew the number of apples in the box from the West, the variety, the size, the color and the soundness. Not much more could be wanted. He even offered to give the box to the inquirer in case it failed to come up to specifications. The other package, a basket, contained good fruit but it lacked the attractiveness, and especially the certainty of the contents of its rival, the box. The guaranty of quality that the western apples have is worth money and enables the western competitor to hold his own successfully against growers who have a decided advantage over him in the matter of location.

No one can say what the metes and bounds of standardization are. Already the bulk of American crops have been brought under its influence; fruit, vegetables, meat, dairy products, and even live stock are fast yielding to the demand for designations which have a meaning outside the neighborhood circle. While many are saying that it can't be done, it is being done.

The Basis of Grades.—Not many years ago the basis of grades, for instance, of wheat, was the judgment of the interested parties. The central markets had standard grades which the country buyers tried to follow, but it always came back to the ability of the buyer to judge the grain on the basis of a general description, helped out by a few samples to be used by way of comparison. A good buyer could by this means approximate the grades; the greatest expert could not be sure of them. It was the same with cotton. Since no exact standards of judgment existed, it was impossible that any buyer should strike the same grade time after time which would be the final selling

grade among the best experts. Even the experts did not agree.

At the present time the determination of the grades of grain, cotton or apples is not a matter of guessing. For example, wheat grades depend on foreign matter, and especially that which cannot be removed, on weight per volume bushel, on moisture, on plumpness of berry and the like. Cotton grades depend on length of fiber, color, and other discernible physical and chemical qualities. Thus grading becomes scientific and is no longer a matter of whim.

It is true that not all grading can readily be reduced to a science. In some lines, especially where the taste of food is a basis, grading remains, and no doubt must continue to do so, in the realm of art instead of the more exact field of science. For instance, the grading of butter is to a great extent determined by taste. Time after time experts differ widely in their ratings. However, the differences of opinion by no means run the whole range of the untrained guesses, and therefore the results are fairly satisfactory, since poor butter will not be rated as good, or *vice versa*. What will happen is a disagreement respecting rather fine points, with the result that samples are variously rated by different judges so as, for instance, to give them an uncertain standing as between "extras" and "firsts." In view of the failure to provide ready means for distinguishing these grades it is not surprising that the public is quite oblivious of them and at retail pays the same price indiscriminately for the upper two or three grades as they are made by the expert.

The grading of fruit is not hard from the standpoint of the trained man in the business. It is almost altogether a matter of following rules which are rather readily interpreted. For example, size, color, freedom from scab, symmetry of form, freedom from insects and their injuries, constitute prominent points to be judged. The grading of vegetables is similarly feasible without minute scientific training.

Many mechanical devices are available for use in deter-

mining grades, such as measures, scales, screens, "triers," "probes," or microscopes. For some of the tests, such as finding the percentage of fat in milk, highly specialized machines and devices are required. It may be necessary to have at hand the conveniences and facilities of a laboratory. The development of these devices does not mean that common-sense judgment is no longer needed; it means that so-called common-sense judgment, which may mean nothing short of guessing, is giving way to means and measures over which the influence of bluff and argument is small. Disputes can be definitely settled, and especially may the ordinary producer easily learn whether he is getting fair treatment.

Influence of Grades and Standards on Production.—Not only does grading assist the producer in making favorable bargains after goods are produced, but it helps him to know what to produce. If it becomes evident that round white potatoes are well adapted to a given neighborhood, and especially if they are bringing a favorable price, the advantage of growing that variety, or those varieties, is evident. Such community action means the elimination of difficulties arising from the failure to find sufficient quantities of a kind to make a carload, and the more serious difficulty of failure to establish business relations with buyers who want goods of a known, desirable, dependable character. If Sac County, Iowa, is known for its Percheron horses and for its popcorn, the buyers of these two widely separated products will head in that direction when wanting to make purchases of important proportions. The grading of oranges has meant the production of oranges that fit the grade requirements. The grading of potatoes has driven out from many a community the mixed, characterless varieties. The grading of Danish bacon has resulted in the production of a bacon hog that comes up to the standard. The same is true of a multitude of products, and may in time fundamentally change the productive methods.

The advantage gained by producing goods that come up to a standard is gained substantially without cost. After

once getting a start it is just as easy to produce what the market wants as to produce what it will take because nothing desirable is available. There is no good reason why the lowest grade of a given commodity should be poor; it might just as well be good, that is, of course, where weather and other uncontrollable circumstances do not frustrate the producers' plans. Poor, gnarly, wormy apples may serve some purpose, in a measure, but the chances are that better apples would have cost little more, would have brought the producer much more, and would have pleased the consumer better. The control of the consumer over the quality of production through the insistence on goods of a desirable quality will be greatly facilitated through the establishment of grades which may be known by name, and which will report in terms of price back to the producer. Such language will be understood, and the remedy, where one is needed, will be readily found.

In some of the best established systems of grading the action of the market has influenced profoundly the extent of the production. One of the most notable instances of this is the change that took place in the production of wheat following the ruling of the Chicago Board of Trade. A certain variety of inferior wheat which, nevertheless, had been deliverable in the discharge of future contracts, was denied that privilege. Previous to this action the wheat was delivered, but not readily used at the price at which the contract holder had taken it. In other words, it had a market value outside of the ultimate use-channels greater than it had inside. No sooner was this artificial advantage taken away than the production of it began to drop. Similarly, a good grade of wheat which had not been deliverable on contract, although wanted by the millers, was scarce. The privilege of such delivery was provided and at once the price rose and the quantity produced increased. These instances furnish good proof, were proof needed, that supply really does follow demand.

Standards and Grades Shorten the Route.—Among the many advantages to be gained by the establishment of standards and grades it must not be forgotten that the sim-

plification of the marketing method, the shortening of the route between producer and consumer, the cheapening of the marketing process, all mean the elimination of undesirable activities and the increase in welfare. Goods that can be described in brief and certain terms can be offered in distant markets and to consumers no matter how widely scattered, with hardly more difficulty than to buyers near at hand. By this means the seller can obtain without great trouble all that the market affords, and, conversely, the buyer can take advantage of the best offerings by those who have goods to sell. Through grading, wheat has become an article with a nation-wide price and never for any period of time is one market seriously out of harmony with another. In this situation of affairs the number of middlemen between producer and consumer is likely to be much smaller than in the case of ungraded goods, since with the latter no one wishes to take a chance, and purchases are therefore made on the basis of personal inspection instead of at long range by telegraph or by letter.

Not only does a well-established grade facilitate the purchase and sale of goods over long distances because of the ease with which they may be described, but the sooner the grading is done the fewer handlings are required. If potatoes are graded once for all in Maine or Minnesota they may be shipped at once to their destination, whereas if they are of uncertain grade a careful dealer in Boston or Chicago must see them and perhaps regrade them to suit the different customers. Regrading and repacking add to the expense, and such expense is to be avoided where possible.

Who Should Do the Grading.—There is a difference of opinion concerning when and by whom the grading should be done. No single answer can be given to the question. In general it may be said that it should be done wherever it involves the least expense, though this does not get us very far. Probably a farmer cannot do a great deal toward grading wheat, though he may take the first and most important step by growing the kind which is wanted in so far as circumstances will allow. After the wheat is once

grown he can do but little toward grading. The sorting, sifting, drying, mixing, and combining which is readily done in a big elevator are difficult or impossible on the farm. The same is true of live stock. A farmer should produce stock of good grade but he cannot bring any stock on hand to the particular requirements of the market. As a rule commission men at the central market can re-grade stock after the local shipper has done his best in that regard. The reason for this is that the commission man not only knows the demands of the market better than does the shipper, but he has more stock from which to select his grades.

Grading at the farm is, however, feasible with respect to many products. There is no good reason why eggs, cracked, dirty, or stale, should be passed over to a middleman for sorting. It is an expensive process, and in the main a needless one. The eggs should come from the farm in uniform, recognizable grades. When properly graded the assembling into lots for shipment or storage is greatly simplified. Another commodity lending itself to grading on the farm is potatoes. The selection of the seed does the first half of the work, and running the potatoes over a screen does the other half. Not only are the graded potatoes salable, but the culls are valuable at home, and the cost of hauling is reduced.

In many other instances grading at the farm is not feasible. Cotton growers are not likely, as a class, to know grades. On the other hand, they can learn to put cotton of substantially the same grade into a given bale. The same is true of hay, except that the less salable hay can often be kept for home use. The more carefully hay is baled and loaded with respect to uniformity of grade, the better it will sell, and the selling charges will be less.

No generalization can be made as to where grading should be done, or who should do it, other than to say that it should be done as near to the source of the supply of the produce as circumstances will permit, and also that it should, whenever possible, be done by some one interested in the welfare of the producer rather than in personal

profits. This is an argument for coöperative action on the part of producers not only at the local station, but as much farther along the route as it can be done without running into too many complications. Usually producers can handle their produce until the greatest concentration is reached, beyond which breaking up of consignments, or a manufacturing process, begins.

Who Should Inspect.—Without inspection by some authority, rules and regulations respecting grading would, without doubt, come to naught. Unfortunately, the time has not arrived when the producer and every middleman can be trusted to do as well by his neighbor as he does by himself, and until that time arrives some exercise of authority is needed to insure as good apples in the middle of the barrel as are found at the top and the bottom, and as much fat and as little water as the law contemplates in milk. On the other hand, after the producer has, with or without supervision, come up to the standard prescribed by society, it requires some care to insure full quarts and pounds of goods which will pass inspection after the same goods have gone through some one else's hands. The inspection costs are friction in the marketing machine, but there seems to be no way of eliminating them.

The question is, Who shall do the inspecting? But there is no single answer. As a matter of practice, it is done by farmers' organizations, by private dealers, by municipalities, by states, and by the federal government. There is no objection to any of these parties exercising the function unless it be on the ground that it could be done better by another.

The farmers' companies where they are highly organized, as is the case of the California Fruit Growers' Exchange, or the various apple growers' unions, have every incentive, and every facility for doing effective inspection. It is to their advantage that it be done rigorously because the reputation of the group is at stake. If one member succeeds in putting into his containers fruit that is below standard he may gain something by so doing, although

the business is so managed that the deception will be likely to be discovered promptly. However, it is the flagrant violation of the rules that would be discovered at once. A slight shading down of grades probably would not, yet eventually the whole group would lose. This is so well understood that fruit growers are seldom allowed to pack their own fruit, since a large part of the grading is done while packing. In some cases the company takes charge of the fruit before it is gathered and does the whole work of picking, packing and shipping.

In the making of grain grades before the federal government took charge, several states had elaborate systems in operation. Particularly was this the case in Minnesota and Illinois. There is no reason why a state might not devise and maintain just as good a system of grading and inspection as the general government, but there is every reason why it can be worth but a fraction as much, no matter how excellent the plan or its execution. The explanation of this fact requires little elaboration. The state has no authority outside its borders, while the great bulk of the traffic is interstate. For this reason the Minnesota grades are not enforceable in other states, and, again, the grades in one state will not correspond to those of other states, even though the terms employed be identical. As a consequence, buyers in other states, especially if there are several states with official grades, must always translate the language of one market into the terms of some other. There is no advantage, but great disadvantage, in such a lack of uniformity. Hence, for all articles entering regularly into interstate trade, the federal government is the logical agency to prescribe the grades and to take charge of the enforcement of its regulations. Where the produce is grown mainly in one state it is not so necessary for the federal government to perform this function as in the case of wheat. Commodities handled within municipalities, such as city milk, may well be supervised for the most part by the city. Even so, a state law covering the more fundamental points, such as a minimum butter-fat content, the application of the tuberculin test, the pro-

vision that no fat may be removed, and no water added, is better than the various provisions which different cities might, and do, provide. The inspection should, as a rule, be carried out by the same authority which prescribes the program.

Whoever undertakes the laying down of the rules of the game should take into careful account the sentiment and practice that has grown up within the group most vitally affected. The rules prescribed by the grain trade are likely to have back of them some very cogent reasons for their existence. While there may be good occasion for making changes in the practices, the chances of getting workable rules are vastly increased by finding out what has been feasible. The more thoroughly producers are organized the more effectively can they attend to their own grading and inspection problems, and where the questions involved do not affect public health there is no objection to the control of the work by the interested parties. On the other hand, the danger of conflicting judgment or interests, resulting in a lack of uniformity of procedure, is forever a possibility until the time arrives when the producers' organization becomes as widely extended as the producing groups. Until that time comes state or national control is more likely to meet the case satisfactorily.

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CHAPTER VIII

ASSEMBLING AND STORING

Assembling

That the assembling of goods for a market, or within a market, is a vital function will be readily accepted by any one who has given the matter a moment's thought. The United States, and likewise the world, is made up of a series of surplus and deficit areas. This means that consumers are not distributed in the same manner as are producers. The division of labor requires that producers and consumers separate. Nor is this the sole occasion, possibly not even the primary occasion, for the presence of the assembling function in the marketing of goods. There are a multitude of people with varying wants, and assembling has to be done in conformity with these wants. Not only does it involve the assembling of a long list of goods to satisfy the varying wants of people, but again it involves the assembling of quantities of goods of a given single kind in order, first, that such goods may be handled economically, and, second, that out of the one class may be made several or many, subclasses based on quality.

Assembling a Variety of Goods.—One great marketing function consists in establishing, out of the unbalanced, almost unplanned, mass of goods produced in the different parts of the country and of the world a selection of goods which fit the wants of the people of a given place. For example, the ordinary grocery store keeps a list of food articles almost as varied as the number of different foods used by its customers. These foods come from a wide range of territory, including the different quarters of our own country and many other countries, even the different zones of the globe.

No matter who performs this marketing function, it is

still a marketing function. If the producer does the work he undoubtedly will get the pay for doing it, just as the middlemen who ordinarily do the work are paid. If the consumer does the work he must stand the expense of it. The assembling of goods is fundamental. Without it each community would live of necessity upon the produce of its environment. Trade at once signifies the carrying of goods from place to place, as well as the change of ownership, and both imply assembling.

Assembling a Given Commodity.—Assembling is the converse of distribution. Every distributing fact and function implies the previous gathering together. But the gathering of goods is not so simple as it may appear. In the process are involved a series of valuations, an accumulation of costs, and a corresponding list of profits which will amount to the same thing as costs in the estimation of both producer and consumer. In the assembling of goods a process of selection is continually in operation. For instance, a broker is buying cheese for a company in Chicago. One of the primary reasons for employing him is that he not only is able to find cheese but is able to find the kind of cheese which suits the trade of the company for which he works. He may even work for more than one company, possibly for several. Among the different services he performs is the important one of bringing together the quantities of produce of a given kind and grade, in conformity with the demands of the trade of each one of his wholesale customers. Without assistance of this kind it is doubtful whether a wholesale dealer could at all times find what he wanted.

In the case of very large wholesale dealers, such as the leading dealers in cheese, the service of the broker may be unnecessary because of the possibility of sorting out from the general receipts, that is to say, the reassembling within the goods assembled, such quantities and qualities as the trade demands. Thus, cheese of a particular size and shape, such as "twin daisies," is wanted, and at the same time the quality must receive attention. Out of six cars of miscellaneous content there may be a carload of the

style and quality wanted by a given customer. To get this assembled and ready is a middleman service. It might be performed, of course, by the producer, but nearly always, if performed by the producer, it will be through a man working on a salary, and such a functionary is virtually a type of middleman.

Assembling farm produce often means a considerable series of fairly distinct operations. For example, cream is assembled by a centralizer creamery from a wide territory. At the country points are agents of the centralizer, often representatives of several companies competing against one another. These agents may drive wagons for the collection of this cream, assembling it into wagon loads. It may then, though not usually, be assembled into carloads, and eventually into great quantities at the creamery. Here the process of selection which characterizes nearly all assembling is evident, and the cream is assigned to different uses and especially to different grouping within the one main use, that of making butter, according to its condition with respect to butter-making qualities. The butter, of perhaps two or three grades, is by this means assembled and is ready for distribution.

Storage

Two kinds of storage are recognized, common storage and cold storage. For the most part, the term "common storage" is used in contrast with "cold storage" to designate the facilities for storing goods which may, or may not, require low or constant temperatures. For instance, cheese may be put into either common or cold storage, but the all-important one for this work is the latter. Grain is stored in buildings which are made for one exclusive purpose. Cold-storage plants are sometimes used for one class of goods only, though they are practically always adapted to the requirements of a considerable number of different commodities. Dried and canned goods, for the most part, can be handled successfully in common storage.

Common storage is old, historically, and needs no de-

scription. Cold storage began long ago with the use of ice; it would be profitless to undertake to tell just when refrigeration by means of ice became prevalent. But ice has its distinct limitations. It is all but impossible to reduce the temperature to freezing by the use of ice, and there is great difficulty in getting the ice to the places where it is needed. For these reasons other means of producing low temperatures were in demand. About 1860, the ammonia process was invented, and some thirty years later, about 1890, it came into general use. Thus, we have somewhat over thirty years of history of modern cold storage in contrast with an indefinitely long history of common storage.

Common Storage; Grain.—One of the simplest commodities, from the standpoint of storage, is grain, yet it, too, is complex when everything is taken into account. To begin with, substantially all the grain of the country is harvested within a period of about six months, and so far as a given kind of grain is concerned, the harvest is begun and ended within two or three months. This means that the bulk of the grain must be kept over considerable periods, varying from a few months to the greater part of a year. Grain which is to be fed on the farm, including the bulk of the corn, a large part of the oats, and a very small part of the wheat, is usually stored on the farm. However, a large part of the great amount of grain sold from the farm goes into storage for some months instead of directly to the users or manufacturers who ultimately want it.

Should Farmers Store Their Grain?—The question is much debated as to whether or not grain should be stored on the farm until it is marketed. There is no answer to such a question until the facts are known. If a farmer has sufficient storage room, and is willing to run the risk involved or pay for insurance, there would seem to be no objection to storage on the farm. Since, however, many farmers do not have storage room the cost of providing it must be taken into account. The chances are that the cost will be higher on the farm than at a terminal elevator.

The local elevator usually has a limited capacity and inadequate facilities for storing on a large scale.

Not only is it likely to be costly, all manner of waste and loss being considered, to store grain on the farm, but there are serious limitations as to results. If the farmer waits for his money until the sale is made, that is one thing, but should he want to borrow on the basis of the grain, it is quite another. Grain in a fireproof elevator, insured, and known to be in marketable condition, is a good basis for a loan. The same grain on a farm is distinctly inferior as security. At the elevator a warehouse receipt is obtainable; on the farm there is no formal security, and a loan is mainly a personal matter which could probably be arranged without specific reference to the grain. At least the grain held on the farm is hardly more than tangible evidence of the probability of ability to pay, while grain in an elevator, with a warehouse receipt, becomes the basis of a loan which assumes the dignity of a negotiable asset.

The Profit in Storing Produce and Grain.—In the fall of 1920 potatoes were worth from $1 to $2 a hundred in the potato-growing districts of Wisconsin. The growers were strongly advised to hold for higher prices. In March, 1921, potatoes sold for from $1 to $1.25 in Chicago, and as low as 57 cents in the shipping district. It had even been proposed to build warehouses in order to take advantage of the higher prices which were so sure to obtain in the spring. The extreme prices received in the spring of 1920, when the farmer got as high as $5.70 a hundred, led the unthinking to believe that something similar was likely to occur in 1921. The increase of 100,000,000 bushels raised in 1920 over the 1919 yield did not seem to impress very profoundly the enthusiasts for a continuation of high prices. No better example can be found than these two years of potato prices to illustrate the effect of a large or small supply on an inelastic demand.

There is a widespread sentiment that it is a calamity to be obliged to sell grain soon after harvest. It is believed that prices are low at this season of the year, when speculators are filling their bins, and that they are regularly

high later. This subject is discussed in one of the chapters on exchanges. A few facts will here be in order.

A study of cost, for several years, of holding grain shows that the cost of holding is about equal to the rise in price which may be expected. In the case of corn the average price during the ten-year period, 1903–1912, was 52.9 cents in December, and 64.2 cents in August, but the carrying charges equaled the difference.[1] On cotton, the increase in price from November to July was just under the carrying cost. For the same ten-year period it is shown that wheat was held, on an average, at a loss. A study made a few years later[2] showed that corn was held at a loss, due largely to the heavy shrinkage, while wheat and oats showed a small profit. The question of profit depends in no small measure on the facilities for holding. If granaries are already built, and are rodent-proof, the expense and loss are both well toward the minimum. Then come questions of finance and the prospect for an increase in price due to the facts of the day.

Elaborate studies have been made on the question of holding corn varying lengths of time ranging from five to twenty-nine months, and the average gain to be expected in price from December to May. During fifty-four years, 1866 to 1919, the average price in May was higher thirty-five years, lower eighteen years, and once the same, as for the preceding December. For the thirty-five years in which there was an advance the average amount of the advance was 11.6 cents. The declines averaged 4.6 cents. Taking the average for the whole fifty-four years, the advance in price for May as compared with December was 6.03 cents. This represents a distinct loss to the holder. It must not be assumed that from these facts any definite conclusion with respect to the advisability of holding corn from fall till spring is to be drawn. The seasons and conditions are so varied that averages are not very illuminating, except to show that unless real skill can be brought to bear on the situation it is better to sell early than late, and skill at

1 J. E. Pope, *Quarterly Journal of Economics*, August, 1916.
2 Illinois Experiment Station, Bulletin 183.

best, applied to the case is but the exercise of a speculative judgment regarding what is likely to happen. Without a good knowledge of the facts, the speculation is merely guessing; with knowledge, it rises quite beyond guessing and becomes a play of judgment based on probabilities.

No doubt there will continue to be speculators for a long time to come, and producers will properly continue to speculate concerning the best time for marketing their own produce, but it is hoped that the basis of the decision concerning the time to sell will be the ascertainable knowledge and will cease to be the prejudices and whims which have appeared to govern in the past. A study of the price curves for the different seasons of the year will afford a basis of judgment, but should a great number undertake to change their selling habits so as to gain the apparent advantage, the very act would cause a readjustment whereby the coveted gains would disappear. This again brings us to the admission that what is ultimately wanted is a regulated feeding of the market whereby supply may be adjusted to demand so as to bring about the most favorable results. To do this requires adequate storage facilities.

Storage for a Longer Period than a Season.—If the statistical evidence is, as appears to be the case, mainly adverse to the advisability of storing from fall till spring, how, it may be asked, would the case look viewed from the standpoint of a longer period? Suppose, for instance, one should obtain the facts of production for a period of years and discover that the crop of the present year was short or long by a given percentage. Would it be safe to decide on the basis of evidence of this kind that the short crop should be sold promptly and the long crop held till a period of probable relative scarcity? A study has been made to show what would have been the result of such action in the past.[3] In general, it seems reasonable to hold a portion of an abundant crop for a considerable length of time with a prospect of receiving a higher price after the supply has diminished. The study bears out this view.

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[3] *Prairie Farmer*, March 12, 1921.

Taking the corn crops which have exceeded the normal by 5 per cent or more, we find that the advance in price from December to the following May is, on an average, 3.4 cents. By May, seventeen months later, the price has risen 11.5 cents and twenty-nine months later, 15.1 cents. The result is obtained just as it would be done in practice, that is to say, without selecting favorable years after they are past and noting what might have been done, but by projecting the sale into the future with all the risk that is to be run respecting another large crop which may follow a large crop. As a matter of fact, during the time to which the figures of the study pertained there were several instances of almost no increase of price during the twenty-nine months following a big harvest. One of the increases was .5 cent, another was 38.25 cents.

As a rule, it does not pay to hold a short crop for higher prices. In the study referred to there was a decline in every instance following a short crop, but by no means was there uniformly an increase great enough to cover carrying charges following a big crop. If one is, however, disposed to speculate, it seems that the safest of all generalizations that can be made is that an increase in prices normally follows the depression attendant upon a big yield. The case cited is that of corn, and corn lends itself to a study of this kind very well, because of the fact that America grows the bulk of the corn entering the market. Were wheat taken as the basis of the study, it would be necessary to resort at once to world figures of both supply and sales. The real point at issue is whether or not farmers can add to their bank accounts by taking thought with respect to the time for selling produce. They can. But before the problem proceeds very far toward a solution, it will be necessary to solve the following questions: whether produce should be held on farms or at central markets; whether the farmer is to be left to his own devices in arranging his credit; how to obtain reliable information with respect to supplies and the prospect of supplies. At present one of the main explanations of speculation is that there are so many unknowns to speculate about.

Cold Storage.—Cold storage and common storage are substantially one and the same, so far as principles involved are concerned. The only essential distinction pertains to the difficulty involved in the case of perishables as contrasted with the ease in storing nonperishables. Cold storage becomes conspicuous because of the necessary concentration of the business. There are from ten to fifteen hundred cold-storage plants in the country. Of these a considerable number are in the hands of big companies, such as the packers.

Prejudice and Misinformation.—There are two main types of prejudice, first, against the quality of the goods coming out of storage, second, against prices which are thought to be manipulated through the storing operations. The quality of stored goods is a health question which we shall not undertake to treat here. The economic phase of the subject pertains to the effect of storing on prices, the cost of food under a storing system in contrast with what it would otherwise be. Or, conceding that it would be just as dear, or dearer, without storage, we may very properly inquire into the actual cost and profit of storing. If profits are exorbitant the public has a right to know it and to take measures for getting the work done for less. If it costs too much or if profits are high the producers may very properly consider the advisability of performing the service themselves.

The most unreasonable rumors have been circulated about the storage business. For instance, a state senator of a western state, a man directly concerned with the raising and shipping of live stock, recently made the statement that the packers sell one beef carcass for every ten beeves bought during the six months of low prices, and nineteen carcasses for every ten bought during the six months' period of high prices. This is one of that large class of supposed facts which would be interesting if true. Since it is not true, discussion is superfluous. Beef is sometimes frozen and put into cold storage for a considerable length of time, but for the most part it is handled as a perishable product, and when so handled it must be

sold within about three weeks. The close balance of sales and receipts of beef is shown in the published figures of one of the largest packing companies. These are submitted here. The figures represent percentages.

	Jan. Feb.	March April	May June	July Aug.	Sept. Oct.	Nov. Dec.
Sales	17.6	12.4	13.5	14.8	19.5	22.2
Receipts	19.8	15.1	13.8	16.3	17.4	17.6

This statement is for the year 1920, but is very similar to the showing made for other years. It will be noticed that for the last four months of the year the receipts are somewhat heavy, while the sales are but little above normal. During the next four months the sales exceed the receipts enough to bring about a balance. In no two-month period is one fourth of the beef held over, and then only until the next period, during which time the purchase price is about the same as during the time of excess purchase. For the five years preceding 1920 the change in price between the closing two months of the year and the opening two months of the following year was an advance of 21 cents per hundred live weight. This presentation is on the assumption that the prices were following a normal trend and that storage was incidental. The question of storage as a controlling factor in the price will be considered directly. Suffice it to say here that no system has yet been devised whereby it has been made feasible for packers to buy meat animals during the entire year and sell the great bulk of the produce during half of the year. The prejudice against the storage of food is founded on the belief that through the storage process prices are manipulated upward for the consumer and downward for the producer.

The Usual Length of Storage.—A normal length of time for storage of goods can be calculated from the seasonal character of their production. For example, half of the cheese is made during the four months, May, June,

July, and August. The eating of cheese is spread quite evenly over the year. Thus, storage is required for some months. Were it not for the fact that cheese, unlike most food products, improves with age for several months, it would be possible to calculate very exactly the time cheese should logically be stored, but the varying length of time allowed for curing makes any careful figuring out of a schedule of little avail. The usual program is to begin storing cheese about May 1 and to continue until November 1. During the first four months much more cheese is put into storage than is taken out. From about September 1 the quantity taken out exceeds the amount put in, and by May 1 of the following year from 75 to 90 per cent of the stored cheese is sold.

Butter is made more uniformly throughout the year, yet over a third of the total amount is made in May, June, and July, while only 18 per cent is made in December, January, and February. Thus, the occasion for storing butter is obvious.

Meat animals are not marketed with reference to the time they are wanted for food, and so the only feasible method of adjusting supply to demand is through storage. Eggs are produced seasonally, half of them coming onto the market in four months, April to July, inclusive, and but 18 per cent during the last four months of the year. Thus, more than twice the quantity per month is marketed in the spring than in the fall.

These facts pertaining to production show that something has to be done to equalize the distribution of these products over the year, or consumers must go without them. Something of both is done, the higher prices during the scarce season resulting in a smaller consumption. Foodstuff of a nonperishable nature, such as raisins, can be stored at less expense and less risk, and therefore the price shows less seasonal fluctuation. Eggs are a good example of a food much in demand at all times of the year which does not come out of storage in as appetizing a condition as when put in. For this reason there is a keen demand for the fresh article, and, as a result, the storage egg has to be sold

before the influx of fresh stock in the spring makes storage eggs undesirable. It is not surprising to find that the carry-over of eggs is almost nothing after March 1 following their purchase.

The Department of Agriculture gave as the average period of storage for leading articles a few years ago the following: beef, 2.3 months; butter, 4.4 months; mutton, 4.4 months; poultry, 2.4 months; eggs, 5.9 months. These figures are not undergoing rapid change.

Amount of Cold Storage.—The question is frequently asked as to the amount of food which is normally in storage. A good estimate of the proportion of several of the leading foodstuffs going into storage for a longer or shorter period of time was made by George K. Holmes of the United States Department of Agriculture. A few of these follow:

	Placed in Storage	Per cent of Production
Beef, fresh	203,217,000 lbs.	3.1
Mutton, fresh	8,310,000 "	4.1
Pork, fresh	175,622,000 "	11.5
Butter	156,737,000 "	9.6
Eggs	9,880,000 cases of 30 doz.	15.0

The above table serves to show the proportions of these important articles of food held in cold storage. To those who have had no information on the subject the figures will seem small. To one who understands the situation the amount of storage in general, not necessarily of the articles shown in the table, appears wholly inadequate. Storage means preservation, and a lack of facilities for preserving food is one of the main causes of waste and therefore of high living costs. This might seem to suggest that the farmer would get less were storage facilities ample, since it would mean an added quantity of food available

for consumers. No doubt this would be true in some instances, but in the main the farmer prospers when other people prosper, and seldom does he gain, in the long run, by having his produce spoil on the hands of those who have bought it from him. He is likely to partake of the loss. The appalling amounts of foodstuff spoiling in the vicinity of great cities points to the necessity of further development in the cold-storage business.

Storage and Prices.—Returning to the question of the effect of cold storage on prices, let us note, in the first place, that few owners of storage plants buy goods for putting into them. The storage space is for rent, and great numbers of merchants rent it for the purpose of holding goods for long or short periods of time, depending on whether they wish to keep them for speculation, or merely as an incident to a turnover. Aside from these public cold-storage plants, there are many of a private character for the use of business men in connection with their operations. Prominent among the storage establishments of the latter class are those owned and used by the packers.

The use of storage facilities for the artificial inflation of prices presupposes that the owners of the goods have in some manner gained such control over the supply as to result in unity of action in offering them for sale. It is popularly believed that the packers have arrived at this stage of economic achievement. However, the proof of the charge has never been of a convincing character. One thing that must not be forgotten is that substantially all cold-storage operations extend from the period of relative plenty to that of relative scarcity. Eggs, butter, and cheese, as above noticed, are stored in the summer for sale the following winter, and insignificant quantities are held beyond the natural storage season, that is, beyond the time of increasing production the following year.

The effect of cold storage on the price of butter should furnish a good example of the general result, since butter keeps well and is produced in large quantities even in the season of relatively low production. Moreover, if there

were a pronounced tendency to pull prices out of a normal trend through the process of storing, it would seem feasible for dairymen to counteract the effect by producing more at the season of the artificial price inflation. Remembering that there was little storage of the modern type before 1890, we find a comparison of the fluctuations from the period of low prices to the period of high prices for a series of years prior to, and another series subsequent to, that time, illuminating. The Elgin quotations are submitted.

Elgin Butter Prices

Year	Low Price	High Price	Per cent of Fluctuation
1880	18	38	111
1881	18½	45	143
1882	22	50	127
1883	19	41¼	117
1884	18¾	38	102
Average for period	19¼	42¼	120
1910	27	36	33
1911	21	36	71
1912	25	40	60
1913	26	35½	36
1914	23½	35	49
Average for period	24½	36½	49

The figures of the table need little interpretation. It appears that the fluctuations were relatively twice as great before the establishment of storage facilities as after it. Butter was neither as cheap in the summer nor as dear in the winter after the facilities for carrying the surplus were developed. Moreover, the story is only partly told by the figures shown. During the earlier of the two five-year periods there was produced a great deal of farm butter which had no Elgin price, because it was too poor to get onto the market, and at any rate, the table is made on the basis of "finest creamery" butter. On a subject of this kind one cannot hope for accurate statistics, but it is a

well-known fact that during the summer months quantities of farm butter were entirely below grade and sold for from 5 to 10 cents a pound. Storage facilities reduced the proportion of such butter greatly, and improved its quality by bringing refrigeration into practice in connection with transportation.

Another instance of the leveling effect of cold storage in butter prices will perhaps be of interest. The average price of "finest creamery" butter in New York City during the three summer months from 1880 to 1890 was 20.5 cents. For the three months of greatest scarcity, November, December, and January, the average was 33.25 cents. The increase of the latter price over the former was 64.6 per cent. From 1900 to 1910 the summer price was 22.25 cents and the price for the winter period was 27.75 cents for fresh butter. Thus, the increase of price for the period of scarcity over the period of plenty was 22.9 per cent, or hardly over a third as great an increase as during the earlier series of years. Another important fact is that the storage butter during the latter of the two periods sold for 25.5 cents, or but 14.6 per cent above the fresh butter price of the low season. Statistically the case against the storage of food with respect to its effect on prices does not seem a very telling one. If a tenable charge is to be made against those who buy for storing, with the hope of gain in higher prices later, it will have to assume a more tangible form than heretofore. If prices are manipulated it is because a few buyers control the product, not because the goods are bought for storage, since under the latter assumption competition may be keen. When competition appears to vanish it will be time to look into the matter in the interest of the public.

Information concerning Cold Storage.—The producers and consumers have an undoubted right to know all that is ascertainable about both demand and supply. In compliance with this principle the government, through the Bureau of Markets, is furnishing the information. This means that merchants with great stocks of goods on hand cannot give the buyers the notion that there is a scarcity

and so obtain an unwarranted price. Moreover, since most goods in storage are in many hands, rather than in a few, the men engaged in the business are as anxious for the information as are those outside. The tendency seems to be definitely toward the view that the cold-storage business is in the nature of a public utility; that storage space, so far as available, must be provided for any one who applies for it, and at the regular rate; furthermore, that the managers of the storage plant shall report the amount of goods on hand whenever the representatives of the state wish to know.

Legislation.—In response to popular demand, the federal government and various states have undertaken the regulation of cold storage. The first consideration is health, the second price. With respect to health, the case seems to be almost entirely on the side of the defendants. That is to say, it has not been proved that cold storage results in producing injurious qualities in the food stored. What it does, in most cases, is to preserve such properties as the food has when it goes into storage, with, in important instances, some further natural deterioration. Thus, the public has the same duty here as elsewhere to protect the buyers against injurious products.

The demand has been, mainly in the interest of price, to limit the time that goods may be held in stock. To make the demand seem as plausible as possible it has usually been claimed that if goods are held longer they will be of poor quality. Faith that the poor quality will result in low prices seems to be lacking, yet should any individual concerned in the legislation happen to come into possession of storage eggs badly off in quality he would expect to sell them at a low price; still he persists in the belief that those who do hold them get high prices. The belief that prices are arbitrarily set by the holder of the goods would be somewhat shaken by a contemplation of the situation in the egg-storage business for the season 1920-1921, when eggs sold for decidedly less than they had cost. The limitation as to time of storage should be based on the facts discovered by the food chemists. If it is true that

meat kept frozen for over a year is unfit for food, then clearly storage should be limited to a shorter period. Since, however, it has been found that it is not so much the length of time in storage, as the condition at the time of storage, which needs consideration, it appears that what we require is effective inspection rather than rules of thumb.

As to price control, the whole matter of storage regulation seems to reduce itself to a question of requiring cold-storage companies to treat all alike, and to a question of monopoly, which is confused with storage, but really not a part of it, and which demands separate treatment. One popular view of the storage controversy is that goods should be marked, dated, so that the consumer may know what is being offered him. The answer to this is that the consumer does not know much more about it with the dates than without. A consignment of poultry in storage a month might be in bad shape, while another in storage six months might be prime. The consumer would always be disposed, until education had made much progress, to take the goods which had been stored the shortest period of time.

If the chemists argue that certain foods kept more than a given number of months are likely to be tainted, spoiled, or in any way unfit for food because of the period of storage, it would be reasonable to require a certificate showing actual condition before permitting the goods to be offered for sale.

About ten states have cold-storage laws. The federal government has passed an act under which warehouses may be licensed and regulated. A cold-storage act has been before Congress for months and seems destined to pass.

Logically, the result of cold storage should be to make produce dearer during the season of greatest production and cheaper during the time of scarcity. The facts seem to correspond with the theory. What is needed is more cold storage, not less. The cost of marketing goods will be both facilitated and cheapened by an adequate system

of cold storage. Both farmers and consumers will benefit by its further development. Who should do the business, whether it should be done by middlemen, by coöperative companies of producers, or by consumers, is quite another question. It should be done by those who can do it most effectively, and probably the decision would be different for different cases. There is a great element of risk and of speculation, which some one must assume, and there must be some chance of reward or no one will be willing to assume it.

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CHAPTER IX

THE FINANCING OF MARKETING TRANSACTIONS

Under the simple methods that have the appearance at least of naturalness, probably because of their age and prevalence, such as the sale by a producer to a local buyer, the question of financing the operations of marketing hardly comes to the farmer's consciousness. The work of handling the finances may, nevertheless, be intricate and difficult; it may be quite devoid of difficulties. A variation from the method of local sales is that of consigning goods to a commission house. Quite unlike these methods, which, after all, are really one, is the question of sale through a coöperative organization. In the financing of coöperative companies are found several methods.

Financing the Local Sale of Produce.—When produce is sold locally the farmer is not likely to pay much attention to the financial questions involved. He gets his money on delivering the goods, and leaves the subsequent worries to the buyer. However, the farmer may be directly affected by the character of the financial plans by which the marketing of his produce is accomplished. If the work is done with little friction the good effects will manifest themselves in a favorable price. If much friction is present the prices will be correspondingly low.

Every middleman realizes that financing his transactions is one of the primary parts of his business. Several different methods are followed. The simplest one is for the buyer of goods to pay for them with his own money. But this assumes that he has the money with which to do it, while probably such is not the case in the majority of instances. Buyers of grain, of live stock, of cotton, or dealers in cheese or fruit, are not likely to have enough capital to finance all of their operations without credit of some sort at least for part of the operations. It would,

in fact, be an uneconomical system by which each man should finance himself completely, since such an arrangement would require a great deal more circulating capital than is needed in a more elastic system involving a large element of credit. It would require a needless amount of ready money were each buyer to pay cash out of his own personal funds for current purchases, owing to the fact that the same goods are passed along from one buyer to another, and for each to keep sufficient current funds for buying the goods independently would mean much duplication of buying power. Nor is this all. The seasons of buying and selling many goods vary greatly within the year, and if every dealer were required to provide himself with the funds with which to pay cash for everything handled, it would mean that he would be obliged to keep much more on hand than was usually needed. This would be true of grain and cotton particularly, since they are sold in such large quantities during the closing months of the year. It would also be true of dairy products to a smaller extent, and likewise of various fruits and vegetables.

A good way to think of the sale of goods is to picture the original seller, as the farmer, at one end of the line and the manufacturer, or wholesaler, at the other end. It is probably not reasonable to try to carry the case through to the consumer, although in some instances it is done. However, the manufacturer or wholesaler must ordinarily pay for his goods on receiving them and, as a rule, must be prepared to hold them an appreciable length of time. This may or may not be true of the middlemen between the farmer and these larger buyers at the central market. With these general facts in mind one may think of the buyer at the central market as the one who pays for the produce and the farmer as the receiver of the price paid. Between these two parties to the transaction stand one or two intermediate dealers. If these intermediaries pass the goods along promptly they are substantially always able to get the money from the central market with which to pay the farmer, much as though the farmer were selling di-

rectly to the central buyers. A few instances of this kind will be noticed.

Financing the Sale of Grain.—For the most part grain is not held long at the local shipping point. The purchase of grain runs into large sums of money rapidly. Few country buyers or coöperative companies have the ready money with which to make the purchase. Even the banking systems of the entire country feel the strain and make preparation for it every fall. The local bankers know that money for moving the crops is going to be wanted and so call home from the money centers everything at their command. The big grain dealers at the terminal markets get their funds into as liquid form as possible. An independent local grain dealer probably begins by paying out some of his own money. Next he is likely to have arrangements made whereby he "draws" on a commission house to which he makes consignments. This commission house undertakes to finance the movement of the grain from the country point to its place of business in order to secure the trade. Competition for business of this kind is keen, and there is no better means of inducing a country elevator man to patronize a given firm than for that firm to help out in the difficult matter of providing the money with which to make the initial purchase at the country point. The country buyer is painfully aware that if he does not get his share of the grain as it comes into the local market his opportunity for a year of profitable business is gone. The influence of the central grain markets is at no point stronger than in the advancement of money for the initial purchase. Thus, it is nothing strange for the representative of a commission house to walk into the office of a local elevator, deposit a book of checks on the desk and say, "When you want money draw on us."

Other devices in common use are the "bill of exchange" and the "trade acceptance." A bill of exchange is much like a check on a bank, but is usually drawn on a merchant, or business house of some sort, and as a rule is not payable for some days after date. Thus, a country grain buyer sending a car of grain to a Chicago commission house

would be likely to draw a bill of exchange on the firm, take it to his local banker, who would advance a large part of the money called for, and send the document along with the bill of lading to the bank at which the commission firm was doing business, for collection. By this means the money is brought from the central market with very little delay, and in the meantime the type of credit paper in use acts very much like money. In fact, the bank can use a great deal of credit paper of this sort almost as advantageously as cash. By this means the payment is virtually made by the buyer at the central market at the time the grain leaves the local shipping point, although the seller ordinarily stands the expense of the interest on the amount until the bank which advances the money is repaid.

The trade acceptance, a term now much in use, is a document in the nature of a draft drawn by the seller against the buyer, payable at a specified time, usually not over ninety days, and "accepted" by the one against whom it is drawn. "Accepted" in this sense means an acknowledgment of the obligation by writing the word on the face of the draft, and signing it.

Trade acceptances of some kind are in use constantly in all marketing operations involving sums of any great size and an element of time. Paper of this kind is recognized by the Federal Reserve Bank and rediscounted by them when properly presented.

Financing the Shipping of Live Stock.—The financing of live-stock marketing is an easy matter. Where it is done by a private shipper he has only to command enough credit at the bank to pay for the shipment, and as soon as the stock is on the car he draws on the commission house, turns the bill of exchange in at his bank, and the financing is about over, so far as he is concerned. The remittance from the central market to the local bank is a matter of but a few days. It is necessary to draw a bill of exchange for something less than the amount for which the produce is likely to sell, in case a price is not set in advance, and in consequence the remittance to the local bank will be somewhat above the amount drawn. The financing of the

coöperative shipment of stock is even simpler than that of the private handling, and will be described below.

The only essential difference between the marketing of grain and live stock is that grain may be bought over a period of days or weeks before it is convenient or advisable to ship it, while live stock is, more often than otherwise, shipped the day it is bought. For this reason the financing of the shipment of live stock is about the least problematical of anything of the kind in the whole field of marketing.

The Warehouse Receipt as the Basis of Payment.—A great many goods are of necessity stored for a longer or shorter period of time. During this interval somebody must own them, and therefore must stand the expense of the capital invested in them. As a basis of borrowing there can be few safer types of security than staple, salable goods, destined to be sold within the year for cash. This applies to such goods as cotton, wheat or other grain, tobacco, cheese, butter, dried fruits and nuts, or canned goods. In order to realize the potential credit of which such goods may be the basis, it is necessary to put the commodity into safe storage, where it may be insured, probably inspected and sealed, in order that the credit institution advancing the money may know on what it is lending, and may be sure that it will be there in tangible, available form at the end of the period. Thus, wheat in a farmers' granary may be a good asset from the standpoint of a loan from a local banker who knows the character of the man, and who, after all, is lending on the basis of general assets and character rather than on the wheat. If, however, money is wanted from out of town, as from the Federal Reserve Bank, wheat in farmers' hands is not of much use. It is necessary to gather the produce into a larger and more tangible pile before going into the money market and asking for an advance of cash on the basis of it. Money is constantly being advanced on farmers' produce, but for the most part after it leaves the farmers' hands. If he is to avail himself of the privilege of holding his produce for the higher prices later in the season; of keeping wheat or cotton until the millers and spinners want it; of keeping

cheese until it is ripe, and until the market really wants it; of selling, in short, to the wholesale trade or to the manufacturer when the goods are in demand for use instead of for speculation, it will be necessary to gain access to the warehouses and to deal in warehouse receipts as the basis of meeting current financial needs.

The experience of California growers will be helpful on this difficult subject. Anticipating the topic below, that of financing coöperative companies, we may note that the producers of such staples as prunes and raisins are paid about forty or fifty per cent of the probable value at the time of delivery, the money being borrowed from banks on the fruit as security. As sales are made the notes are paid, and later the balance due the grower is paid. From seventy-five to ninety per cent of the final price may be expected within three or four months, while the final payment is very likely postponed for eight or ten months. Such operations as these tend to show the producer that whether he gets all of his money at the time of delivery or whether he does not, it is certain that financing the crop over the time from the harvest to the consuming period is not done without expense. If the expense can be borne by the producers directly the chances are it will result in a smaller total margin between them and the consumer than would be the case were it passed on to a middleman.

Financing Coöperative Marketing.—What has been said so far in this chapter pertains almost entirely to the problem of financing the movement of produce through private agencies. It is no small item in the marketing program, but it does not come close to the farmer as a problem for him to solve. Almost without exception, the question of financing a farmers' company looms up as a formidable obstacle in every undertaking other than those of the grain or live-stock variety, that is to say, where sales are slower. Miscellaneous shipments to commission firms or wholesale buyers are made on the basis of ten or thirty days' time. Add to this delays in collecting and consigning the goods and it may mean several weeks from the time the farmer delivers them. There are four main methods of financing

a farmers' company, viz., by deferred payments, by borrowing, by accumulating a surplus out of sales, or by subscribing capital stock. Each method will be considered briefly.

Deferred Payment.—While this is listed as a financial method it is hardly that literally. Rather it is a means of getting along until the money for the goods sold is available. As a method it is strictly negative. Even so, it is a device used both by private and by coöperative agencies in getting the money from the purchaser next beyond the country buyer or receiver, to the producer. A large number of cheese buyers during past years have made a practice of paying at some specified date, as twenty days after the end of the month. Others pay immediately at the end of the month. It takes ready capital to enable the buyer to make prompt payments in a case of this kind, since he does not realize on his own sales so regularly and quickly.

In the main, the deferred payment is a method followed by farmers' companies in dealing with their own members. It is seldom practiced by independent dealers. Under ordinary conditions, a private company would be at a great disadvantage in trying to make patrons wait for their pay after delivering the goods. The main instances of the kind are those in which delivery of the goods is made from day to day during the month or fortnight and pay day is after the close of the period agreed upon. For instance, city milk is usually paid for on the tenth or twentieth of the following month. Commission men, or those doing a similar business, though buying the goods and selling at a profit instead of working on a specified margin and merely passing the goods along, frequently make arrangements with their country patrons for settlements at certain intervals. While all of these arrangements providing for delay in settlement are designed to give the buyer a chance to get his money out of goods before passing it back to the producers, the serious questions of deferred payments pertain to rather longer periods of time and are found mainly in connection with farmers' companies.

The financing of farmers' companies is usually a problem of some difficulty. The farmers want their money promptly, and they are not keen to invest in stock, even in their own company, where the returns are sure to be nominal only, that is to say, the direct returns. The indirect returns may indeed be quite beyond the nominal rate, but these they hope to get without much investment. Deferred payments appeal favorably enough to farmers where the time involved is quite brief. For instance, in the shipment of live stock almost without exception there is a willingness to wait, but the wait is usually not over from four to six days. The Danish farmers receive eighty per cent of the value of their hogs at the time of delivery, the greater part of the balance a week or two later, and the final sum, about fifty cents a head, at the end of the year.

The California citrus fruit growers deliver their fruit to their own district exchanges and take the pay when it has been received from the buyers at the central markets. Thus, as in shipping live stock, the shipper does not have to advance the money. This is the usual method employed in the handling of fruit, vegetables, and live stock, none of which involves the holding of produce for any considerable length of time. The deferred-payment plan becomes much more difficult to handle in all such operations as selling grain, cheese, condensed milk, or running coöperative packing plants. In these there may be much delay, and if so, an element of speculation is involved.

Where producers are willing to accept the deferred-payment plan, and perhaps it should be added, where they are in a position to accept it without great hardship, it is the cheapest and most reasonable way of taking care of an important part of the financial situation. It is cheaper than a subscription of stock because it will be necessary for the majority of farmers to provide the money only part of the time instead of all the time. The deferred payment automatically adjusts itself to the requirements of each individual, whereas the shares of stock do not. If a given farmer furnishes $200 worth of milk for cheese in June and gets his pay the 20th of August, he is clearly

carrying his own load for the one and two thirds months, and to the extent of his sales exactly. Should the same man furnish but $50 worth of milk in January, he is out the use of but $50 for the period of delay. Another man may furnish twice as much milk in January and half as much in August, while others will have every conceivable variation as to total amount and time of year it is furnished. Sales of stock will be adjusted only very roughly to the amount of milk produced, though, of course, the fact of a nominal dividend takes care of the difference. However, if the producers can finance themselves for a few weeks beyond the time of delivery of the goods, the question of relative burden drops out, and borrowing is reduced to its lowest terms. If the producers want part of the middlemen's margin it will be necessary to perform some of the middlemen's services in getting it, and one of those services is waiting for returns on goods owned or money invested.

Borrowing Capital.—Another method in use, and to some extent a successful one, is to borrow from some one ready to advance the cash the capital needed during the period between the time of receiving goods from the producer and the time the money is back from the central market or the place of sale. The Danes, in their bacon factories, depend mainly on borrowing to tide them over the period from the time pigs are received until the money is back from England for the bacon. They can do this without great trouble because of their well-established reputation, and because of their internal organization requiring members to deliver their pigs to the company. This means that, so long as the company continues, they are assured of a volume of business upon which the banks may rely as a guaranty that the notes given them will be paid. That is to say, the connection between the members of the association and its officers is such that it cannot be broken, or lapse, merely on the whim of the individuals. They are all bound together legally, like any corporation, and the relationship must continue until legally dissolved.

The favorable features of financing through borrowing are mainly two. The first is that the farmer is relieved of

the necessity of putting up the money, and for a great many this is a real relief. The second consideration is fully as weighty: it is not necessary to keep a sum of money on hand for current use, a part of which would be idle a great share of the time. It would be idle because the amount needed is sure to be relatively great at certain times as compared with other times. The borrowing plan permits the amount in use to accommodate itself exactly to the needs, interest being paid on the amounts borrowed and ceasing the day of repayment. It is the business of banks to take care of just such demands as this and they are glad to do it. However, some farm-marketing operations outgrow the capacity of local banks to supply the amount of money needed. In such cases it becomes necessary for the farmers to wait a while for their pay, subscribe stock, resort to borrowing on warehouse certificates, or perhaps use some device still different, but suited to the case in hand. Borrowing has the advantage of diffusion of responsibility, and may be the easiest way of providing an element of farm credit otherwise not readily available. By the collective-borrowing method the rate should be kept about at the lowest point, whereas the individuals belonging to the company might be obliged to pay more. If there is no surplus capital among the farmers, the borrowing plan has this count in its favor. With all of its good features, however, there are offsets which lead to the final conclusion that, while excellent as a supplementary means of providing funds, it is seldom the best as a main reliance.

Providing a Surplus.—This means of financing a farmers' marketing organization is a good device for taking care of incidentals and irregular contingencies. For instance, a surplus, or a sinking fund, as it may be called, is entirely satisfactory in the case of live-stock shipping, out of which to pay unforeseen losses, such as for animals injured in transit. The accumulation of a moderate surplus means that the board of directors has at its disposal a sum to be used whenever occasion of sufficient urgency may arise. It is the usual practice in commercial undertakings, and is equally desirable in coöperative ventures.

A little money on hand lends dignity to the undertaking, and commands respect among associates. No surplus and little or no capital stock are likely to mean small borrowing power, though, as noted above, this is not necessarily and always the case. Surplus does not have to be kept idle. It may be invested in securities and used as collateral in borrowing.

Stock Subscription.—While in the business world in general the usual plan in going into business is on the basis of stock subscribed and paid, there is a strong prejudice against it among coöperating farmers. The stock will, under the arrangements usually prescribed, yield but a nominal rate of income, and a nominal rate is attractive to but few people, even though their past experience would seem to suggest that there is little hope of getting more. The non-profit, non-stock type of coöperative company has been given, presumably, a specially favored position in the law relating to monopoly and restraint of trade. There seems to have grown up around the non-profit, non-stock idea a sentiment suggestive of superior morality, in contrast with the usual money-centered stock company. It may seem a little ungracious to remark that the purpose of each type of company is identical, and consists in an effort to derive material gain. No doubt the commercial company is undertaking to make a profit on its investment, while the farmer company is striving to get what it considers a fair price. But the farmer is trying to get a fair price for the commendable reason of a desire for profits in his business—the very thing sought by the commercial company. The next point in the controversy might well be the social necessity and importance of each of the two lines of effort.

One of the real difficulties hinging about the stock-subscription method of financing marketing operations is that of control. This subject will be discussed later, but it is necessary at this point to call attention to the fact that not all coöperative undertakings can well be arranged strictly on the basis of one-man-one-vote. It is feasible to provide for this method of voting, with, at the

same time, some real differences in the amounts subscribed by different members. The first question to be decided is, Does the company want to raise capital by stock subscriptions? Some so-called authorities take a stand rigidly against the whole plan. Others undertake to divide the marketing operations into two or more separate parts, that of warehousing, for instance, and that of selling. It is held that money is needed for the warehouse and its management, but not for selling produce. This is substantially true in cases where the sales are rapid and the farmers willing to wait a while for their pay. The California Fruit Growers' Exchange is a good example of a company needing money for a packing house, but not needing any considerable amount for financing sales beyond the packing house. The associations, by districts, sell stock to their members on the basis of acreages of fruit, and the money is invested in a packing house, which, as such, does not make money.

The farmer elevators are financed through the sale of stock so far as the elevator building and its equipment are concerned. As a consequence, a nominal sum, such as $100 each, is all that is absolutely required. The money for the purchase of grain is provided otherwise as outlined above. In the case of the Wisconsin Cheese Producers' Federation, it has been found after seven years' experience that the deferred payment plus the borrowing method is inadequate. The returns for cheese are not as prompt as the returns for oranges; the relation of the members to the company is not such as to carry with it financial responsibility, and the borrowings of the officers have run into the hundreds of thousands of dollars. With the proposal to expand the business, the officers are convinced that the sale of stock is inevitable, if the federation is to do anything more than the nominal business of passing the cheese along to somebody else, the sales being governed mainly by the necessity of getting the pay at the first possible moment.

The Item of Interest.—In all financing operations time is an element to be taken into consideration. Whether it

takes three days or ten months in which to complete a marketing operation, somebody is out the use of the capital representing the value of the goods for the period. Whether or not the charge for interest appears with a label by which it may be identified, it is certain that the charge has to be met by somebody. A farmer holding 1,000 bushels of wheat worth $1 a bushel for six months, where interest is 8 per cent, is out of pocket logically, whether he borrows the money or not, $40, or 4 cents a bushel. The cheese producer, who waits until the twentieth of the second month following the month of delivery for his pay, in a section where interest is 7 per cent, is out of pocket on $1,200 worth of cheese $11.67, it making no difference whether the $1,200 worth be delivered in one month or in twelve.

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CHAPTER X

EXCHANGES: HISTORY AND FUNCTION

When speculation began no one will ever know. It will not even be known when speculation in food products began. The history of organizations for carrying on speculation in a more or less orderly way is not so elusive, and the facts are fairly well known. Speculation has been well recognized and, for the most part, not wholly approved for thousands of years. Organized speculation, however, is of more recent development, and not much of value can be learned from the meager accounts of speculation in ancient times. The surroundings were in many essential respects unlike ours, and the inferences likely to be drawn would be, in all probability, as often wrong as right. It is a matter of interest, however, to note that gambling and its rather close relative, speculation, have never been held in repute by the masses.

Early Markets in the Nature of Exchanges.—During some centuries markets were conducted in connection with monasteries or manors, where there was protection against thieving provided by garrisons. There were certain market days, usually from one to three a week, and in the large towns, daily. The hours during which trading might be done were carefully prescribed, and fines were imposed on any who, by trading outside of hours, broke the rules.

In addition to these manor, or village markets, there were more pretentious affairs of the same general character held periodically, usually on the occasion of feast days, as Easter, Pentecost, or Christmas.

The approach to something like the modern market came with the growth of towns and the breaking up of the feudal system with its institutions clustered around the manor. The grain supply of many towns was precarious. The situation is well described by a student of the subject.

The difficulty of securing a corn supply experienced by the slowly growing town of the late Middle Ages seems to have arisen not only from its growth in population and its divorce from agriculture, but from the decline of the manorial marketing system. The gradual disappearance of this system deprived the town of the corn formerly supplied by an organization which could tap several local areas, and compelled the town to rely upon the local territorial marketing organization of the tenants of the immediate neighborhood. Probably the hardship in the latter development lay not so much in the inability of the rural tenants to supply the town, as in the temporary disorganization involved in the change.[1]

Instead of too many merchants, as many people think we have to-day, merchants were too few and too small to care for the wants of the people for food. As a result, municipalities took an interest in the matter, encouraged merchants, took stock of supplies held by millers, and even went into the business of buying and storing grain. About 1390 the city of London established a municipal granary and a little later ordained that merchants should be sent abroad to buy corn, the city taking all responsibility of loss. The system of municipal granaries continued through the reign of the Tudors and Stuarts.

It became evident that some one, or some agency, public or private, must look to the future needs of the townspeople. The town officials found much trouble in supplying the people with food and were only too glad to find some other agency able and willing to undertake the responsibility. The craft guilds were then the main organizations and rather naturally they were willing to attempt the task. This worked fairly well until the guilds declined in strength. By the close of the seventeenth century the public and the guild management of markets had about passed, and the matter had fallen into private hands.

The Rise of the Exchange as Now Understood.—Although there had been exchanges in some of the Italian

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1 Gras, N. S. B., *Evolution of the English Corn Market*, p. 89.

cities, the first exchange dealing in world commodities was at Antwerp, the leading city in world trade for some years after American development began. At this place a building was erected by a man by the name of Van de Bourse, and used as an exchange for world products. It is from the name Van de Bourse that we get the word "bourse" which has come to be the word used to mean exchange on the European continent. The first activities of the bourse was that of a money market, but as a result of the desire of the tradesmen to give the buyers from other places the opportunity to purchase commodities, not only at "fair" times, but throughout the year, dealings in commodities were permitted, and, as a result, we see for the first time speculation in commodities taking place on an exchange. It arose primarily out of the dealings in pepper which was an important factor at that time in determining the prices of other goods. A few capitalists had the controlling power, as it was only they who could advance enough money to the king of Portugal, who, because of his need of money to carry on war, would hold the vessels coming from the Orient until he had extracted the desired amount from the traders at Antwerp.

With the decline of Antwerp as a world exchange in the seventies of the sixteenth century, Amsterdam, Holland, came to be the world's great bourse. Here stocks of the various corporations, rather than money, were the prime object of speculation. In this connection dealing in futures began. The advantages of the bourse were soon discovered, with the result that the system spread rapidly to other countries, especially to England and Germany.

It is perfectly plain that exchanges and future dealings came into existence entirely naturally and in response to a demand for a market for goods available at the moment and for those available in the future. There was no premeditated or sinister design on the part of merchants to take advantage of the public or to transact business which could not stand the light of publicity. The growth of the exchange was as natural as the growth of the village store.

The Rise of Exchanges in America.—The process of the organization of exchanges in America was evolutionary, the same as in Europe. As the need for marketing machinery grew, the mechanism was developed. It was done by those who had the marketing work to do, and done in order to perform a service and effect a saving, not a saving designed to benefit others, but to benefit those directly concerned in the work.

The first beginnings of an exchange in the United States were laid in the seventeenth century while Holland and England were in conflict regarding the possession of the New Netherlands. After the war, business took a fresh start. In the New Netherlands, building operations increased, commerce between the colonies increased, and the towns and province alike felt the impetus of prosperity. One writer puts it:

> Matters went along with comparative smoothness for several years. The merchants of New York, few and scant of purse, to be sure, but as eager for gain as their modern successors, met every Friday at noon (commencing on March 24th, 1670) upon the bridge that spanned the narrow ditch in Broad Street to discuss and arrange their various financial concerns, and there laid the foundation of the New York Exchange. For this very body of slow-going Dutch and English shopkeepers, who spent their Friday mornings in the open air closing their transactions, and dodging the flying sleds of the boyish coasters, grew at last into that powerful association of merchants which for years has guided or manipulated the monetary transactions of half the world.[2]

The first building known as an exchange was erected in 1690–1691 at the foot of Broad Street. In 1752 it was superseded by a new structure, known as the "Royal Exchange" and sometimes as the "Merchants' Exchange." Here was carried on trading in the various commodities. Prior to the building of the Royal Exchange there existed at the foot of Wall Street the first real grain exchange in New York, which went by the name of the "Meal Market."

[2] Brooks, E. S., *The Story of New York*, p. 53.

It was incorporated June, 1727, and continued as an organization till 1762. During the Revolution both it and the Royal Exchange went out of existence. In their stead came the Merchants' Coffee House, the Down-town Coffee House, and the Wall Street Coffee House. In 1825 there was begun on Wall Street the construction of a new Merchants' Exchange Building which was ruined by fire in 1835. About this time there also arose a great demand in Europe for American foodstuffs, and business became very active. The flour and grain merchants grew dissatisfied with the inconvenience attached to the need of making trips to Wall Street to settle their contracts, and organized in 1852 the New York Corn Exchange. They soon outgrew their quarters and in 1860 a number of the merchants withdrew and started the New York Produce Exchange Company and erected a new building of their own, but by 1887 the membership had grown to such a number that they had to build another. To quote Mr. Carhart, President of the New York Produce Exchange:

> Thus we see that the New York Produce Exchange is the outgrowth of the needs and necessities of the commerce of the port of New York. It was not manipulated into existence; it was not organized out of hand. It began on the sidewalk and has grown to its present magnificent proportions because it is the best possible expression of those needs and necessities.[3]

On March 13, 1848, a small group of men met in Chicago and organized a board of trade similar to the exchanges of the eastern cities. Its beginning was small, but as the Middle West increased in population and as its agricultural area was extended, it also grew in size and in importance, until to-day it is the largest grain market in the world.

Boards of trade and exchanges are not always organized by merchants and dealers who act as the middlemen. Occasionally producers themselves organize such a corporation. Such was the case of the Elgin Board of Trade.

[3] Carhart, E. R., "The New York Produce Exchange," *Ann. Amer. Acad. Pol. and Soc. Science*, 38, pp. 211–215.

It arose out of the difficulty in marketing the products of the butter and cheese factories around Elgin, Illinois. The manufacturers accused the commission men of cheating them by repacking their products and selling them under a new brand name at prices higher than those paid to the producers. Discontented with the treatment they received, the representatives of nineteen factories met and organized, in 1872, a board of trade. Difficulties were encountered at first in getting buyers to attend the board, but, after having once established their reputation, they readily overcame their difficulties, and in seven years their products were known throughout the United States and Europe. The purpose of this board seems to have been fulfilled, and it has gone out of business.

Many boards of trade, or similar bodies with different names, have been organized from time to time in the United States. Grain exchanges are found in all the leading markets, some twenty in number. A cotton exchange was established in New York in 1870, and one in New Orleans in 1871. Butter and produce boards are found in the main centers, and cheese boards dominated the cheese market, mainly in Wisconsin, for many years.

Functions of the Board of Trade.—The purpose of a board of trade is said to be:

> . . . to maintain a commercial exchange, to promote uniformity in the customs and usages of the merchants; to inculcate principles of justice and equity in trade; to facilitate the speedy adjustments of business disputes; to acquire and to disseminate valuable commercial and economic information; and, generally to secure to its members the benefit of coöperation in the furtherance of their legitimate pursuits.[4]

In brief, it may be said that the primary object of the organization is to furnish a great market where the buyers and the sellers may come together and transact business subject to the rules laid down by the board.

It must be understood that the board of trade does no

[4] Stone G. B., *Board of Trade of the City of Chicago.*

buying or selling. It is merely an organization of men who do buying and selling among themselves, and with outsiders. The board, as such, maintains a place of business, collects and disseminates news regarding crops. The main business is to maintain a trading floor for cash grain. Without this the exchange would not be likely to exist, since speculative transactions are an adjunct to the movement of actual produce. Whatever is said about the exchanges, it must always be kept in mind that the exchange is a market. It may not be an ideal market, but a market it is.

Futures.—It is on the question of futures that most controversies concerning the desirability or undesirability of exchange transactions hinge. By a "future" is meant the purchase and sale of contracts agreeing to deliver goods at a subsequent time. The seller may, or may not, possess the goods at the time of the transaction. Futures were known long ago. A German writer [5] states it as his belief that dealing in futures began in Holland about three hundred years ago in connection with the East and the West Indies companies. From here it soon spread to the marketing of the products of the whale fisheries, and from 1634 to 1637 it was at its height in tulip speculation, the tulips being sold on condition that they be delivered the next fall. In the latter part of the seventeenth century dealing in futures was involved in the buying and selling of grain at Amsterdam. It was also quickly taken advantage of in the buying and selling of such commodities as coffee, oil, and oilseed, with the result that it soon developed a technic that was similar to that of to-day.[6] During the seventeenth and eighteenth centuries it was taken advantage of in stock dealings in England, but it was not until after the French Revolution that the dealing in futures was connected with the buying and selling of wares in France. These early future sales were for the "forward delivery"

[5] Fuchs, Carl J., *Der Waren-Terminhandel.*

[6] Fuchs, Carl J., *op. cit.*, pp. 5, 6. *See also* Emery, H. C., *Speculation on the Stock and Produce Exchanges in the United States*, p. 34.

of some particular lot of goods which were sold on the basis of samples or occasionally on the basis of some fairly recognized standard with allowances for any variation in quality when the goods were delivered. These sales arose because of the desire of dealers to take advantage of a favorable price before their goods were ready. It was customary for the consignee at the "port of call" to sell the goods in the best market available at the time, and upon the arrival of the goods to order the vessel to proceed to the port where the goods had been sold. However, it was only with the development of the warrant and grading system that the modern system of dealing in futures was made possible.

The use of warrants began in England in 1733 in the business of the East Indies Company.[7] Their function was to transfer ownership without the actual transfer of goods, and to facilitate the advances of capital against the goods held. They passed freely from hand to hand and frequently bore many signatures before finally being presented for the wares which were specified on the receipts. Gradually, as the commodities became classified into the various grades, the practice developed of giving receipts designating certain amounts of a particular grade, or specifying a particular lot deposited in the warehouse. As the quantity held in storage increased steadily, it became necessary to adopt a different plan of dealing in the grains, as it was difficult to deliver at any moment the actual grain deposited on a warrant plan of issuing "general receipts" accepted. This practice of issuing general receipts was started early in the Middle West but was not adopted in New York till 1874. It made possible the selling of products which were not in existence, and consequently there grew up the system of "short selling" which supplied the last cog in the modern machinery of organized speculation. It is not certain just when dealing in futures began in the United States, but as soon as it became of importance

[7] Emery, H. C., *op. cit.*, p. 35. *See also* Hecht, Felix, *Die Warrants*, p. 2.

rules were adopted. The first appearance of printed rules regarding future trading was in the Report of the Chicago Board of Trade in 1869. Active dealing in futures probably began there in 1864 or 1865; in St. Louis, Milwaukee, and Toledo, in 1855; and in New York not till the '70's.

Hedging.—The term "hedging" as here used probably came from the gambler's vernacular. It has long been used, at any rate, to designate a bet on each side of a hazard. By this means the one placing the bets clears himself of all risk and so becomes an indifferent party to the outcome.

In many business transactions men are obliged to assume great speculative risks, frequently greater risks than they can well carry. In many instances a counter speculation balances the major part of the first transaction, and so cancels the main part of the risk. Two instances will suffice to illustrate these cases:

One case is that of the country grain dealer. Suppose at a country elevator a dealer keeps on buying wheat until his bins are full. He may not even have had the option of selling from day to day on account of transportation congestion, and in any case the sales would lag behind purchases by from three or four days to a week, depending on the distance. In the majority of such instances the dealer pays about what he thinks is the market price at the time, allowing for expenses and profits, and immediately sells on the board of trade an amount corresponding closely to his purchases. Whenever he makes the actual delivery of the grain bought at the country point, he buys in the future market a contract for a like amount of grain and offsets it against the sale of the future previously made. Whatever he gains, let us say, on the future market, because of a decrease in price between the time of selling the future contract and the time of buying another with which to cancel the first, he will lose on the actual wheat, which must also have declined in price during the same time. On the contrary, should he lose on the future market,

he will gain correspondingly on the wheat in his possession. The double transaction may be illustrated thus:

Bought wheat, Sept. 1 @.....	$1.60	per bushel
Sold wheat, Nov. 1 @.....	1.70	" "
Gross gain	.10	" "
Cost of doing business.....	.04	" "
Net gain	$.06	" "
Sold on future market, Sept. 1 @	$1.67	per bushel
Bought on future market, Nov. 1 @	1.73	" "
Loss	$.06	" "

In this case the local dealer has just been able to get the 4 cents which covers his expenses, in which he perhaps has reckoned his wages, and a profit of 1 cent a bushel, giving him, therefore, a satisfactory income. Had he not hedged he would have made a handsome profit. But had grain gone down in the meantime he would, without hedging, have sustained a heavy loss. Another frequent instance of the use of a hedge is that of a flour miller who must sell flour six months in advance. He can seldom buy, at once, enough wheat for use in manufacturing flour during so long a period. For one thing, it would require a great deal of money, and for another thing, the difficulty of finding the grade of wheat needed, and all at once, would be great. So the miller makes a contract to deliver flour at future dates and buys wheat futures covering the sales. As the weeks go by, he purchases wheat on the cash market and sells futures to offset his future contracts. Thus, he does not, as a rule, receive the wheat which would come to him by virtue of the future purchases. What he does is to use the future market as a means of escape from the dangers of speculation involved in selling flour ahead of its delivery without knowing what the wheat would cost.

To summarize the functions of a board of trade it may be said that it is an organization of traders furnishing:

1. A known and continuous market.
2. Rules governing transactions.
3. Information concerning the goods and the markets.
4. Grades and standards. (These are now in many cases taken care of by the state or federal government.)

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CHAPTER XI

EXCHANGES: TERMS USED AND METHODS OF OPERATION

The Exchange Viewed as an Organization.—An exchange is made up of men concerned primarily in some one or more lines of buying and selling who group themselves together, usually under the form of an incorporation. The membership is usually restricted, and only members may trade on the board. New members must be voted in by those already in, and must subscribe to the rules. A membership costs anywhere from a small fee to five or ten thousand dollars and even more in some cases.

Futures and hedging have been discussed in the preceding chapter, since they pertain to the functions of the exchange. The terms described below are such as have grown up within the trade to designate the manner of doing business.

The Pit.—By the "pit" is meant the platform consisting of a series of raised steps forming circles leading up from the outside, and sometimes down, to the center. The purpose is to allow as many as possible of the men of the group to stand in sight of one another. The habits and manners of the group are beyond description. The onlooker not familiar with the scene and the sounds has hard work to believe the actors sane. However, they are sane, and, moreover, they are acting in an orderly manner in the sense that they know what they are doing, and are doing it efficiently. By signs made with the uplifted hand they offer quantities of grain at a given price, and by similar gestures the buyers take it. An annotation is made on a pad of paper, and the transaction has all the validity of an office-drawn contract.

Broker.—A broker is an agent; in the speculative market, the agent of a trader, who executes orders in buying

or selling. He has no interest in the grain or other goods beyond that of making a sale or a purchase.

Scalper.—The scalper is a man who buys for the sake of a gain made by selling again in the same market, and as a rule within a very short time. The "pit scalper" is a pit broker who does buying and selling on his own account.

Selling Short.—This means that the seller does not own the commodity which he sells at the time of making the transaction. Should he make no further move he would manifestly be short of the goods when time for delivery arrived. In the nature of things he must buy, before that date arrives, an amount equal to his contract sale. The trader who believes grain will be cheaper during the delivery month than at present sells a quantity of grain, perhaps 10,000 bushels of wheat for May delivery, making the deal in February. He owns no wheat. Let us suppose that the price goes the opposite way from what he expects. In all probability he will not wait till May 31 before making a purchase, "covering his short," as it is called, but will get discouraged early, and buy a contract for the same amount of wheat for delivery the same month. Wheat may have gone up 2 cents and the speculator loses $200. The man from whom he buys may not, and probably does not, have a warehouse receipt for the 10,000 bushels of wheat. He, at the new level, takes a chance on a decline just as the first speculator did a short time before at the previous level.

Buying Long.—The "longs" are the opposites of the "shorts" in the sense that they have bought futures, and therefore will if they passively await the passage of time receive the prescribed grain. They are "long" in the sense that they own contracts on which they can demand delivery not canceled by contracts given to any one else on which delivery may be demanded. The longs have bought in the belief that prices are going to rise. When a long sells, he is said to "unload" or to "liquidate."

Bulls and Bears.—These terms are used to designate two classes of dealers who are supposed to act as these animals are in the habit of doing. The "bulls" undertake to lift

and the "bears" to tear down. Hence, a man with wheat to sell uses his influence to raise prices. He acts the part of an optimist, no matter how pessimistic his feelings. The bear wishes to buy and so his interest is in making things look as blue as possible. He undertakes to show that prices are bound to fall.

Curiously enough, the actual trading on the part of these two classes has an influence the very opposite of their gossip. The shorts are the bears, yet they must buy and in doing so they give the market a "bullish" turn. So also the longs who must sell, themselves the bulls, do the bear act as soon as they start disposing of their holdings.

Puts and Calls.—These are options, not of the kind described as a synonym for futures, but in a more literal sense. Suppose a trader wishes to secure himself the privilege of selling at a certain figure in case nothing better presents itself. He may buy from a fellow trader the option or privilege of tendering to him a certain contract at a given price.

The call is the converse of the put. A short, for example, may wish to lessen his risk for the day or week, and purchase the option or privilege of calling for, that is, of buying, at a specified price a given quantity of grain. He will do exactly as one does in the case of an option on a piece of real estate, buy or not as the facts and circumstances suggest during the period covered by the agreement.

Margins.—By a "margin" is meant the purchase or sale on the board of a quantity of grain against which transaction a deposit of cash or collateral is made. On a wheat transaction in 1921 a margin of 10 cents a bushel is required. When prices were much lower and the market steadier, a smaller margin was accepted. The margin is a guaranty. If, for example, a country speculator wishes to buy 10,000 bushels of wheat for May delivery, and pays in the prescribed 10 cents a bushel, his commissioner will carry the account for him until such time as the price drops 10 cents. If it happens in a day, by which circumstances the margin will be wiped out, the commissioner will sell the client's contract, and retain the 10 cents to cover the

loss. Should the fall in price be gradual, a call will be made for money to keep the margin intact. The pay for doing the business is a straight fee of ⅛ or ¼ cent a bushel. Dealing on the basis of margins is not encouraged by the conservative men of the trade, since it promotes speculation of an irresponsible kind.

The Option.—The word "option" implies that some sort of choice is open to the party concerned. In the language of the exchange the word "option" has come to mean about the same thing as future. The significance of the option is that the seller of a future contract to deliver grain has the privilege of delivering it on any business day during the designated month. Thus May wheat may be delivered any day from May 1 to 31, inclusive, provided the first and last days are business days. The buyer must settle for it when it is delivered.

Corners.—A facetious definition of a corner comes about as near to describing its meaning as one could wish: "A corner is an acute attack of monopoly." Early in the history of the Board of Trade in Chicago corners were numerous. They occurred in wheat, corn, and oats, and were attempted in other grains. As the volume of trading grew, and particularly as the system of buying and selling grain became more thoroughly developed, it became harder and harder for any one man to dominate the situation.

Within the past thirty-five years there have been but three outstanding instances of corners. These were: the Hutchinson corner of 1888, the Leiter corner of 1898, and the Patten corner of 1909. Of these, the Hutchinson corner succeeded, and the price of wheat doubled within a week during September, 1888. Mr. Hutchinson was in a position to sell at this time, since he had been a heavy buyer for months preceding, and many speculators on the other side found themselves short.

The Leiter corner occurred ten years later and was of the spectacular sort. In the latter part of the year 1897 Leiter began to buy wheat and store it. He bought futures for December delivery and anticipated great trouble for the sellers, expecting them to be unable to find the grain.

But in December he got his wheat. The price rose, and probably the deal could have been closed out at a profit but Leiter was looking for a real shortage in wheat later, and so held on. Instead of a rising market during the early months of 1898, prices fell and in June came a collapse. Leiter lost heavily and forthwith retired from the business.

The Patten corner in 1909 seems to have been based on the shrewdness of Mr. Patten in beating the government estimates by making more accurate predictions. He believed the 1908 wheat crop was below the amount reported by the Bureau of Crop Estimates, and in the fall of that year he bought heavily. The next spring prices rose, and before the 1909 crop was ready Mr. Patten sold his holdings at a great advance. The sales, however, did not result in a collapse of the market, the prices remaining high for several months. For this reason it may quite logically be maintained that Mr. Patten merely took advantage of the supply and demand forces and was himself but a minor influence in the advance.

Corners Declared Illegal.—In 1909 the Supreme Court of the United States declared a market corner of interstate commodities illegal and criminal. Just how enforceable a law of this kind is, remains to be seen. To begin with, before conviction can take place it will be necessary to decide whether or not the speculation on which the accusation is based is merely in line with the trend of prices, and the advantage to the speculator that which some one or more were bound to reap, or whether the speculation was the cause of the increased price.

Action of the Board against Corners.—It is a clear case that whatever joy a single individual may get out of a corner few, if any, others of the thousand members of a board are in a position to enjoy the program. Hence, it is not to be wondered at that the Chicago Board of Trade, soon after the Patten transaction, passed rulings [1] which will presumably prevent corners in the future. These rules are five in number, as follows:

[1] Boyle, James E., *Speculation and the Board of Trade*, p. 74.

1. Grain is not to be sold outside the city for less than the price prevailing in the city. (It seems that this had been done in order to create a scarcity when otherwise no scarcity might occur.)

2. It was provided that at the close of any day's business a member who was short should have the privilege of settling on the basis of a fair price, plus damages not to exceed 10 per cent. A committee appointed by the President is to determine the "fair price" on the basis of cash and future sales in Chicago and in other markets, instead of permitting it to be established on the basis of futures in the one market only, which, near the close of a delivery month, might be entirely out of line with cash transactions for the day. The allowing of damages up to ten per cent might result in heavy losses and corresponding gains, were it not for the fact that the committee appointed to settle the matter is not likely to take a very liberal view of a case resembling a manipulated corner.

3. Before any attempt was made to prevent corners, all future contracts called for the delivery of one grade of grain, and that only could be tendered. It is now provided that twenty-one grades may be offered, the scale of variation in price from grade to grade being stated. Thus, any grade of the different kinds of wheat above No. 4 can be used in settling a contract. Twelve grades of corn and three grades of oats were admitted.

4. One of the main weapons of the corner builder was the requirement that grain for delivery in fulfillment of a contract be in certain public warehouses designated as "regular," and that receipts for the same be presented in due form. It was provided under the new rules that grain on track within the Chicago switching district could be used in making delivery during the last three days of the month. In this manner grain can be delivered to a short and relieve him of the necessity of buying it from the regular store which has been monopolized for the moment.

5. Similar to the preceding provision is the rule under which the Board of Trade may declare any elevator or boat within reach and with the proper trackage facilities, a

regular place for the storage of grain to be delivered under the jurisdiction of the board.[2]

A student of the operations of the Chicago Board of Trade suggests that, in addition to the above rules, which seem very excellent, there be a rule expelling a member who attempts to corner the market. This would seem to be a punishment in keeping with the nature of the offense. The cornering episodes are contrary to the spirit of an open market. It is a case of one man taking advantage of the rest and of the consuming public, and reaping a reward, for shrewdness, possibly for better insight into conditions, but always to the harm of his fellows.

Corners did not originate in boards of trade, nor are they confined to such organizations. The same thing is done outside of all organizations. There are instances of corners in eggs, in coal, and in sugar. No machinery for handling such cases in the open has been devised yet. Within boards of trade such attempts, though undoubtedly made in the interest of the other traders rather than in the interest of the public, are commendable. Whatever difficulty may be experienced in defining fair price, in general there will be all but unanimous assent to the designation of a price forced out of line by manipulators, as unfair. The leading grain markets of the country have rules similar in import to those here described.

Clearing.—In connection with most speculative markets there is to be found a clearing house in which those who are either long or short may settle with the house. Chicago has a different plan, which will be described in the next paragraphs. The usual work of clearing houses, except the one in Chicago, is to keep open trades, in an orderly way, up to date with respect to margins. The members file their clearing sheets and with them, in case of loss, a check to cover the added margin resulting from the day's decline in price. Conversely, those whose holdings are on the winning side receive checks from the clearing house covering their gains. Such clearing houses are organizations separate from the exchange.

[2] Boyle, James E., *op. cit.*, p. 79.

In Chicago the clearing house is part of the Board of Trade. The work of this clearing house is to handle trades that are ready for final settlement. The settlement will be made in one of three ways: (1) by actual delivery of the grain; (2) by the delivery of a warehouse receipt, which entitles the holder to the grain; (3) by the matching of contracts for like amounts. If, as may occasionally happen, one trader buys from another, and then sells back to the same man, the clearing house will have nothing to do except to check up the difference in price, see that it is paid, and cancel the entire transaction. Commonly settlement is made by "ringing out." This may be understood by assuming that A sells to B; B sells to C; C sells to D; D sells to E; and E sells to A. Were the deals all at a given price, there would be nothing to do but to cancel the whole series of transactions at a single stroke. Ordinarily no two prices are alike; hence, money to cover losses and meet gains must pass. The case may look something like this:

Party	Amount Bushels	Purchase Price	Selling Price	Profit	Loss
A	10,000	$1.60	$1.62	$.02	
B	10,000	1.62	1.70	.08	
C	10,000	1.70	1.65		$.05
D	10,000	1.65	1.59		.06
E	10,000	1.59	1.60	.01	
				$.11	$.11

As will be obvious from the table, if the clearing house pays to A $200, to B $800, and to E $100, after collecting $500 from C, and $600 from D, the whole series of deals will be completed and closed. If the trader wants to receive the grain on a contract all he has to do is to await the delivery period. If he wants to deliver grain after selling a future all he has to do is to leave the sale contract uncovered by a purchase, and as surely as the exchange con-

tinues to do business he will have the privilege of delivering the grain, probably not to the original holder of the contract, but to the holder at the time of maturity.

Spreading.—"Spreading" [3] is a speculative short sale in one market and a speculative purchase in another market, when, because of some local condition, one market has got out of line with the others. The spreaders believe the market will return to a normal difference, and they attempt to anticipate this.

Kansas City wheat, corn, or oats futures, for example, because of some local condition, may be out of line with Chicago, too low, say. Spreaders calculating on all commercial conditions, would then buy Kansas City futures long and sell Chicago short.

Again, perhaps, there is a poor spring wheat crop and a big winter wheat crop, and Minneapolis and Chicago get out of line. Minneapolis may be regarded by the spreaders as being too low, relatively, or Chicago too high. So the spreaders buy Minneapolis wheat futures long and sell Chicago short, thus perhaps reducing the difference to a parity with general conditions—an average for both Chicago and Minneapolis.

Yet it sometimes happens that spreaders calculate wrong and the difference widens. Then the speculator is like a bareback rider in a circus riding two horses, with the horses diverging. It is only a question of time when the "spread" becomes too great for him, and he quits. But the tendency of spreading is to bring about a normal difference between markets; and to the extent that this is accomplished, commerce is benefited.

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[3] *Grain Exchange and Future Markets,* p. 13, Chicago Board of Trade, 1920.

CHAPTER XII

THE INDICTMENT OF FUTURE TRADING

Without a single important exception, the leading farmer organizations have condemned future trading. Sometimes they have undertaken to make an exception in favor of hedging, but they have not explained how hedging could be carried on independently of the speculative market. The feeling is deep-set that the speculator acts as a depressor of prices to the producer. This is the view of the producer. The consumer is just as sure in his conviction that the speculator increases prices.

The Attitude of the Grange.—In the early years of the Grange little attention was paid to the exchanges as such. There was a general sentiment in favor of eliminating all middlemen who could be replaced by representatives of farmer organizations, and this by implication would include the exchanges. However, at the annual meeting in 1887 a resolution denouncing "gambling in futures" was passed, condemning the whole practice of such sales, "whether of cotton, corn, wheat, pork, or any other produce of the farm; that the said National Grange believe it to be a species of iniquitous gambling, that it establishes the price of produce of the farmer without regard to the necessity of the just and equitable law of supply and demand." It was asked that such dealing be made a misdemeanor and punished like any other crime.

The Attitude of the Alliance, the Union, and the Equity.—In its earliest declarations the Alliance asked that dealings in futures be abolished, and it has never abandoned its stand. The opinion of the president of the Union concerning the nature of the organized speculation is offered as typical of the popular view:

> Gambling in farm products has done more real harm to the farmer than all the droughts, pests, and diseases with which he

has to contend on his farm. Droughts come and destroy or cut his crop. Pests, like the caterpillar, the bollworm and the boll weevil in cotton states, and the locust and other pests in the grain states, annually destroy millions of dollars for the farmer. Diseases play their part in lowering production. The loss from these is very large, but the operation of the grain pits and cotton exchanges by gamblers who grow fat on the sweat and toil of the poor farmer, cost the farmer many more millions annually than all these destructive elements combined.

Shall these bloodsuckers continue in the future as they have in the past, to suck and grow fat?[1]

Aside from this comment, the same writer devotes a whole chapter to the argument against futures. He undertakes to show that the exchanges dealing in futures destroy legitimate speculation, cause instability of prices, are guilty of price manipulation and are themselves incapable of internal reform. The claim that hedging is needless and fruitless is brought forward.

It would be useless to quote similar sentiments from a great number of sources. Concerning the Equity, suffice it to say that very prominent in their declaration of purposes came the statement of their intention "to end speculation and gambling in farm products."

American Farm Bureau Federations.—This organization opposes the present system of speculation, but, instead of merely asking for its suppression, proposes a counter move which, if successful, will obviate the necessity of so much dependence on the present exchanges. However, they ask in the meantime that short selling be prohibited.

The Agricultural Press.—The majority of the agricultural papers of the country, though not a unit on this subject, are of the opinion that speculation in farm products is inimical to the best interests of the farmer.

Short Selling Depresses Prices.—Perhaps the most fundamental of the views held by those who oppose the operations on the exchanges is that short selling is a

[1] Barrett, C. S., *The Mission, History and Times of the Farmers' Union*, p. 101.

weapon by which the market may be hammered down. It is said that those who desire a decline in the market have the power of offering limitless produce, fictitious, of course, but with the same influence as an offer of actual produce, and consequently prices decline. A member of a cotton growers' association, a few years ago, in supporting a bill to prevent the selling of cotton futures, ventured to estimate the loss on cotton due to the depressing influence of futures at from $5 to $10 a bale. He was supported by a member of Congress who, in referring to the action of the exchange said, "Drawing on an illimitable supply of phantom, fictitious, inexhaustible cotton, they sold cotton down."

While perhaps the majority of producers believe that the sale of such enormous quantities of what they call fictitious produce must of necessity result in a lower price, the consumers are wont to take the other side and hold that the speculation results in raising prices. Another charge made by some producers and some consumers is that, while the speculations may not result in either higher or lower prices in the main, they do result in a constant alternation from high to low and back, forever keeping the honest dealer guessing, and causing great loss because of the uncertainty.

Seasonal Manipulation.—One of the most persistent charges against the exchanges is that they manage things so as to hold prices down in the fall and early winter when farmers are selling, and put them up in the spring and summer after the speculators have gained possession of the bulk of the grain. Those who do little or no thinking on the subject believe that short selling is an easy way to hold prices down during the early season, and at the same time is no hindrance to putting them up at will later. Where a little thought as to the manner of doing this is demanded, the following naïve explanation is offered: The speculators have, it must be admitted, played both sides of the market during the early months, and, as a consequence, some of them are sold short and are therefore under the necessity of buying later on a rising market. However, they are on

friendly terms with the longs who might presumably hold them up and occasion a loss, but who, out of friendship and a feeling that the tables might later be turned, let the shorts off in a gentle manner, and then the whole group, now owning the actual wheat, sit back and let the price soar to its natural level, and reap great rewards. A belief in this explanation of a supposed program requires as its setting a complete and complacent innocence regarding the facts.

Legislation against Future Trading.—The outstanding instance of legislation against future trading is that of Germany between 1896 and 1908. The German people, especially the agricultural class, felt that the grain exchanges were a detriment. They favored the passage of the law and anticipated better prices for produce. The intention of the sponsors of this law was good; it was to take gambling out of a real and necessary business.

The speculators were not altogether distressed over the passage of the law, since they could go along in much the same manner as before, so far as their operations were concerned. This was accomplished by telegraphing their transactions to exchanges outside the country.

Any legislation against the operation of exchanges in this country would drive the traffic to the exchanges of Canada and Europe. What would happen should all countries legislate against future trading at the same time is hard to predict, but the prediction that such a thing will not happen is very safe.

During the Civil War speculation developed in greenbacks. The government felt that such action was reprehensible, and undertook to stop it by a law which went into effect in June, 1864. The price of greenbacks immediately fell, and Congress repealed the law about ten days after it was put into operation.

The farmers seem to be able to get what they want in the way of antifuture legislation. Bills were introduced in the legislatures of the two states in which the great future markets are located, for the purpose of restricting future transactions, as far as possible, to deals correspond-

ing to actual purchases and sales to be consummated. Farmers' companies are to be admitted to seats on the boards.

A bill in Congress provides for a tax of 20 cents a bushel on puts, calls, ups, and downs. Boards are to be allowed to deal in futures only to the extent of probable fulfillment of contracts. The Secretary of Agriculture is to be given general charge and is to exercise his authority in preventing all manipulation of prices. Privately leased wires for sending board news are not to be permitted.[2] Bills similar to these have been introduced in Congress from time to time for thirty years.

Court Decision against Speculation.—Under the police power of the state, various court decisions regarding the legality, ethics, and morals of future trading have been handed down. The English courts have declared that a contract which according to its real effect is not a genuine selling agreement but an agreement for the payment of the difference between the selling price at the date of sale and the selling price at the date of delivery, is a gaming or wagering transaction, and therefore void. The German courts have gone further in treating time bargains as gaming transactions, and according to rulings, the wagering intention may be inferred, notwithstanding the fact that neither the express nor the implied terms of the bargain would give color to the assertions that it resolved itself into a stipulation for the payment of the differences. The German courts are given the liberty to infer such an intention from the condition of life of the party repudiating the purchase or sale, from the size of the transaction, and from the circumstances outside the expressed or implied terms of the deal. There is no room for doubt as to the view taken by the courts in this country or in Europe respecting the gambling features of much of our board-of-trade business. Even so, the views of the courts have not been made effective.

Gambling a Social Menace.—One of the objections to

[2] Of these bills those in Minnesota have become laws; the federal bill passed Congress in August, 1921.

the work of the exchanges hinges on the conviction that a large part of it is gambling. Little need be said about gambling as an evil, since the evil is so universally recognized. There is no doubt as to the views of the public, either on gambling in the abstract, or on the diagnosis of the symptoms manifested by the exchange. To the public, the buying and selling of a commodity which one does not possess, or wish to possess, can hardly be explained as anything short of plain gambling.

It is held that the evil of gambling generated by the great exchanges, likened to lotteries, is by no means confined to the vicinity of the exchanges, or to the principal actors connected with them. Were no other people outside the professionals affected by the gambling mania the public in general might be reconciled to the program of letting these degenerate gamesters assume the whole responsibility respecting the welfare of their souls. However, the evil that they do lives with them in the lives of many of their fellows. Scattered throughout the country are great numbers of small speculators, bakers, barbers, and butchers, who are unable to resist the temptation to take a chance on the boards of trade. These people can hardly be called speculators in a serious sense. It may be a mild and allowable form of gambling, but how to apply any other term to it is not apparent. The country speculator, if the more respectable term is by courtesy to be used, nearly always plays a losing game. There are several causes for the adverse outcome. To begin with, such speculators are nearly always on the buying side, whereas shrewder men take whichever side seems the more likely to prove profitable. Then, too, the country buyer of an option usually deals on a margin and sometimes his margin is wiped out almost before he knows it, and just as surely as he lets the margin lapse because of a movement of price against him, his agent will sell him out. Furthermore, the country buyers are more likely than old, seasoned speculators to get panic-stricken and to sell out during a temporary slump. No matter to which of these several causes the outcome is in any given case to be attributed, the fact is undisputed that

the country "lambs" are easily shorn, but there are always more on hand for each and every shearing.

The Cost of Speculation Borne by the Farmer.—There is a widespread belief that whatever is lost and won on the grain exchanges is a burden on the grain grower. It looks to the grower as though the sums changing hands by way of profits among the speculators must come out of the price which the next purchaser of the grain pays. If this is true, it is reasoned, the margin is just so much wider between consumer and producer than it would be were this particular charge not there.

It is pointed out that, with speculative trading running up to two, five, or ten times the amount of real produce on which it is based, the commissions and other incidental costs must be enormous, and if these charges all rest on the produce trade and come out of the producer's pockets, the load is made to appear heavy. For instance, it is well known that for the non-member the commission for the purchase or sale of a contract is about ⅛ cent per bushel, the double transaction, that is, buying and selling, costing about ¼ cent. Thus, if the grain crop should be sold to non-members ten times over as futures, it may easily appear that the commissions amount to 2.5 cents a bushel—a figure large enough to compel attention. Sold to members, it would be but half as much. This subject will be discussed briefly in the next chapter.

Speculation Causes Frequent Minor Changes in Price.—A charge often made against the board-of-trade method of dealing is that, while it may not cause the great upward and downward swings of prices, it does result in a jerky, nervous series of increases and decreases great enough to cause heavy losses to growers and dealers, who are always kept guessing as to what is going to happen. If, for instance, a buyer in the country should buy wheat at $1.60 per bushel, in the belief that it can be handled and shipped for 15 cents a bushel and that the market will be fairly safe at $1.75 for a few days, he may find it down to $1.65 the day his grain arrives, but up to $1.80 a day later. Is this not as broad as it is long, and will the buyer not be

as well off in the long run? Yes, if he can ship a very large number of consignments, but he cannot afford to take so much risk, and so buys on a wider margin, which means that the farmer takes less.

False Rumors.—It is frequently held that the future market is demoralized; fortunes are made by speculators, and corresponding losses are sustained by producers through the false reports circulated among traders regarding the condition and amount of the grain supply. The explanation of the possibility of success in ventures of this kind on the part of unscrupulous speculators, lies in the fact that the majority of speculators are nervous concerning future prospects, and are therefore easily frightened into action, which illustrates mob psychology well indeed, but is disastrous to the stability of a market. It is pointed out that the circulation of misinformation regarding wheat stores and prospects may demoralize a market to such an extent as to pull prices far out of line, and cause widespread loss before recovery of equilibrium is possible.

The Historical and Statistical Proof that Speculation Depresses Prices.—The dealing in futures became a constantly important feature of the exchange about 1870. Soon after that prices began to decline and continued to decline for years. Is this not eloquent testimony of the fact that the decline was caused by future trading? Of course, all prices were following the same downward trend, and it would seem to be necessary to account for the concerted action by assuming that the action either was sympathetic or merely represented a coincidence.

An up-to-date charge also is at hand. In July, 1920, future trading began after a suspension of about three years. There was a gap of a few weeks between the end of government control and the beginning of future trading. During that time the price remained quite stable, but as soon as the purchase and sale of futures was begun the price started on a rapid and spectacular decline. What more forceful argument could be presented to establish the contention that futures mean low prices to the producer?

Not only was the decline in price taken as conclusive

evidence that futures meant cheap wheat and corn, but it was promptly and persistently argued that future dealing brought back to a market characterized by reasonable stability the extremes of erratic fluctuations. During the six months after the boards began business, the prices of wheat not only fell rapidly but showed a lack of stability such as has been rarely seen. A rise or fall of 20 cents in a single day happened again and again. To the public mind, this rapid rise and fall always means manipulation. It is pointed out that heavy purchases are made at the low prices, but that the products made from the grain so purchased never fall in proportion to the cheapness of the wholesale price.

Futures Should Be Based on Actual Goods.—Perhaps the one point on which the greatest number of people who criticize the dealing in futures could agree, is that it would be reasonably satisfactory if futures were confined to actual produce. The belief is firmly rooted that there is iniquity only in dealing in that which does not exist. Akin to the belief that there should be no dealing in fictitious produce, is the demand that dealings be restricted to a given quantity of produce, that is to say, that future trading might be allowed to sell the crop a specified number of times but not a limitless number of times.

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CHAPTER XIII

THE DEFENSE OF FUTURE TRADING

Speculation and Gambling Distinguished.—Many attempts have been made to differentiate between speculation and gambling. In the popular mind they are substantially identical. Perhaps the most familiar statement of the case is that made by former President Hadley of Yale University, who says: "The difference between legitimate speculation and gambling lies neither in the subject matter nor in the form of the transaction, but in its *intent* and *purpose*. Legitimate speculation involves anticipation of the needs of the market and the power to assume risks in making contracts to meet these needs. . . . If a man speculates with his own capital the transaction is apt to be a legitimate one; if he speculates with the capital of the community—it is almost pure gambling." Another writer makes the distinction hinge on the question of a contribution to legitimate dealing in which speculation may render a service, a full equivalent return for the profit made. Professor H. C. Emory, one of the best authorities on speculation, defines the word as dealing in property with the intent to make a profit from its fluctuations in value. This is almost exactly the dictionary definition, which reads: "The act or practice of buying land, goods, shares, etc., in the expectation of selling at a higher price, or of selling with the expectation of repurchasing at a lower price; a trading on anticipated fluctuations in price, as distinguished from trading in which the profit expected is the difference between the retail and the wholesale prices or the difference of price in different markets."

Another effort at a definition of speculation: "Speculation consists in the assumption of a risk which already exists, and must be assumed by some one." The risk assumed by the grain speculator is likened to that carried

by the insurance companies. The risk is not created by the risk taker; it is there already and somebody must carry it. Likewise, the grain is in existence in September, and somebody must carry the risk of price changes respecting it until the time it is actually sold to consumers. The inference in this definition is that gambling is carried on in connection with risks brought into existence for the sake of the bets or wagers, and that no useful purpose can be served through the operation. It may be well to call attention to the literal definition of gambling, which makes the word a derivative of *game* and *gaming*. In relation to prices, gambling has been defined as the assumption of risks which need not exist, or which do not exist, until created for the sake of the wager, bet, or whatever it may be called.

Glancing back over these definitions, we are impressed with the patent fact that the line between gambling and speculation is by no means clear and distinct. It may be made to appear so by carrying it into the realm of metaphysics and making the intention of the participant the gauge. The basis of intention may enable a man to settle the matter within his own conscience. "As a man thinketh in his heart, so is he." We do not question the efficiency of this means of separating the sheep from the goats where each individual classifies himself, but if some one else is to do the classifying the case is not so simple.

There is little hope that we shall arrive at a distinction between speculation and gambling that will be at once satisfactory with respect to the classification of the operations, and a basis for action respecting them. It may answer the purpose of the moralist to find that the intention of the one is different from the intention of the other, but it is of no avail to the legislator or the court. It may seem to a large number of the laity that all speculation should carry with it the actual ownership of the goods. But in practice it is very doubtful whether a program of this sort could be carried out even were it adopted. The exchanges have gone a long way in that direction by requiring all contracts to be drawn as though delivery were

contemplated, and so, in fact, that delivery may be enforced if the other party so desire. This gives the business an appearance of dealing in realities, and one time in ten, or some greater or less proportion, it proves to be so. Are the transactions which are settled in the clearing houses, through payment of differences, to be counted as different in kind from those settled by the transfer of ownership of wheat or cotton? Shall one be counted gambling and the other speculation?

To brand as gambling all contracts which involve the taking of chances on the price of goods which the speculator does not at the time possess, would lead to no end of confusion. Should it be attempted in the produce trade, the question would arise as to why it should not be applied to other dealing. For example, the miller contracts to furnish flour at a distant date. He expects, it is true, to have the flour in time for delivery, but, even so, he is selling short. The same will apply to countless other cases. Objection will be raised on the ground that in the most of these innumerable cases the delivery of the goods is contemplated. Shall we then conclude that the frequency of actual or contemplated delivery is to be the basis of judgment concerning the ethics or morality involved? In the case of options on real estate let us assume that the delivery takes place one time in two, while in wheat it is one time in ten. Are we to conclude that the fifty per cent probability is moral, while the ninety per cent is immoral?

In all probability, the case will never, and can never, be decided on the basis of abstract reasoning. It will have to stand or fall as judged by its results. Thus, we must come to a conclusion as to whether speculative trading in the movement of produce is necessary or unnecessary; as to whether it results in a higher price to producers, or a higher price to consumers, or a lower price to one party or the other. It must be decided whether or not prices fluctuate more because of speculation. And last, but not least, it must be decided practically whether or not there is a more excellent way of getting the work done. This view of it takes us away from the discussion of the terms gam-

bling and speculation. No matter how intense our feelings may be on the subject, the chances are that the decisions that will be made, if any are made, must be based mainly on the tangible results of the exchange and its methods, rather than on definitions of words and moral views concerning the principle and practice involved in taking chances on future prices.

Selling Short.—In the preceding chapter the objections to selling short were noted. On the other side of the question it must be admitted that every sale involves a purchase, and therefore all short sales are balanced by long buying. Why not insist that the long buying raises prices, or at least offsets the tendency of the short selling in the opposite direction, and so maintains a given level? Some think the short seller by his aggressiveness, or by taking advantage of circumstances which cause dullness, no matter what they may be, is able to depress the market still further by offering his phantom wares. For the sake of the argument, let us grant that he might do so, but would any of the opponents of future trading like to be put into the position in which this speculator would be after a move of this kind? He has sold wheat at a low price, so low as to cause the producer a loss. The time will pass and his contracts will approach maturity. He must do one of two things: either buy a contract with which to settle by cancellation his obligation, or produce the wheat. From the standpoint of the speculator, it makes little difference which he does. If he has sold contract wheat at less than it was worth, or, what amounts to the same thing, for less than it is destined to be worth later, he is confronted by the necessity of buying in a rising market, and must, therefore, pay more than the price at which he had contracted to sell. Could he do a sort of sleight-of-hand trick and buy more than he had sold while the price was demoralized he might, of course, make money. To assume that with very few exceptions this could be done, is to prove too much, for if the selling of the futures depressed the price, how, forsooth, can it be seriously contended that buying a like amount, or even more, will not correspondingly raise the

price? The answer to this conundrum should be given by those who propose it. As a rule, no clear-cut explanation of the hypothetical transaction is offered. The case is supposed to carry conviction on the bald statement that the speculator depresses and raises prices at will.

The charge that is much harder to answer than that of seasonal manipulation of prices is the contention that prices are manipulated from day to day, or, just as likely, from hour to hour. It is observed that produce prices are "nervous"; that is to say, in the case of grain, they dodge up and down over a range of from 3 or 4 cents to 10 or 20 cents within incredibly short periods. It is held that there can be no reasonable explanation of such erratic action. Somebody must be responsible for it! It is true that the explanation of the rapid change in the price of grain futures is not easily found. If it is true that some men make money by the change, it is just as true that others lose money by the change, and it is true, moreover that the whole speculative game would lose its fascination were prices to be thoroughly stabilized for both short and long periods, so that it would be reasonably certain what goods were to be worth at future dates.

If operators on the boards of trade have the power to manipulate prices to any considerable extent, it is undoubtedly with respect to the frequent minor changes, rather than in the long up-and-down swings over long periods. On the other hand, no clear case has yet been made in proof of the charge. Why not believe that the speculators are themselves uncertain as to the trend of prices, and are therefore doing their best to anticipate the real or final course to be followed?

That prices have been manipulated is generally accepted as a fact, but that short selling in itself unduly depresses the market remains to be demonstrated. It is related that Napoleon once complained of the lack of patriotism manifested by the low bidding of certain investors for government bonds, inferring that the low offers caused the low prices. One of his ministers replied that probably the offers recorded the price that the bonds, in the minds of the

buyer, were likely to be worth, rather than anything of a sinister character.

Speculation Furnishes a Continuous Market.—Whether prices are low or high, steady or unsteady, there is something to be said in favor of an organization which at all times furnishes an opportunity for purchases and sales. It may easily happen that buyers for wool, potatoes, or tobacco are hard to find. The market is "nominal"; that is, a figure is quoted which seems to tell the truth as nearly as it may at the time be possible to state it, but, even so, it may be difficult to make a sale at that or at any other figure. In organized speculation there is always the opportunity to bring something to pass. The market may be unsatisfactory but anyhow it is a market. Millers may not want grain, exporters may not want it, but at all events some one will take it and pay cash for it; and there is no reason to doubt that, under the varying circumstances that from time to time govern, the price offered is about what the commodity is worth.

Exchanges Furnish Information.—All leading exchanges are in constant touch with every available source of information concerning the existing and the prospective supply of produce. The amount of produce exported, the amount consumed, the amount shipped to terminal markets, the extent of plantings in this and other countries, the reports concerning prospective yields, the costs of transportation, the weather; in fact, everything and anything which can possibly enter into the supply-and-demand equation is eagerly wanted by the traders on the boards. Without a doubt, each trader would like inside information, and on various occasions great effort is being made to obtain it, but, on the whole, reliance has to be placed on the information available for all, and the individual must depend for advantage on his skill at interpreting the reports in a manner as keen as, or keener than, his competitors.

On the blackboards of the leading exchanges of the country are to be seen quotations of prices and other market facts, from New York, Chicago, St. Louis, Minneapolis,

Duluth, Kansas City, Winnipeg, Liverpool, Berlin, Antwerp, Buenos Aires, and Melbourne. The information is all but instantaneous, and is posted every few minutes. Telegraphic service makes this information available to the whole country in an incredibly short space of time. With such information constantly available, no one need long remain in the dark concerning the ascertainable facts. Nearly every afternoon paper in the country contains an account of the transactions of the morning, so that the grain dealers and farmers of remote villages may know by evening what was done earlier in the same day on the great exchanges of the world.

The advantages of the information, aside from the advantage to each trader's profit, are several in number and important in degree. To begin with, we are considering a future market, and the only intelligent basis of a future market is the prospect concerning future events and facts. Thus, future bidding is constantly dependent upon prospects of future supply and demand for the goods in question. If the information is the best obtainable; if it is widely diffused, and fairly easily interpreted, it is then safe to say that futures will correspond reasonably to cash sales, and, moreover, that sales in one market will correspond reasonably with those of another. In other words, there will be a fairly uniform and steady market.

With information of this character at hand, it is extremely difficult for one man or for a group of men to corner or manipulate the market in any large way, since those against whom they may plot have the same information on which to base their action as have the plotters of unholy schemes.

Hedging.—The practice and purpose of hedging have already been explained. The advantage of hedging is generally, though not universally, admitted. Hedging is a speculation the intent of which is to cancel another speculation which cannot be avoided. While the hedge takes off the main part of the speculation one time with another, it must not be supposed that all chance of loss or gain disappears with the hedging transaction. It may happen that

cash grain and futures pull apart for a time instead of fluctuating in harmony. Just as surely as this happens, the chance of a loss or a gain on the hedge, as compared with the cash deal, develops. For example, during the closing months of 1920 and the early part of 1921 the correlation between futures and cash was neither close nor regular.

What the holder of a hedge contract is trying to do is to save himself the risk of ownership of the grain during a period of time, and to depend on the usual trade, or manufacturing margins, for his profit. The question at issue resolves itself into the possibility of hedging in a market in which only real transactions are made, that is to say, in a market where every transaction involves, not the potential or ultimate ownership, but the actual immediate ownership of all produce used as the subject of speculation. It is the opinion of nearly all who take part in operations of this kind that without the dealing in contracts which are in all probability destined to be settled by cancellation instead of by physical delivery of the goods hedging would be so limited and cramped as to lose its present effectiveness. The opportunity to sell a contract irrespective of the ownership of the produce involved, means that whenever a miller wishes to buy a hedge against a flour contract which he has made, he does so, thereby safeguarding his contract on flour of whatever size and whenever made. Likewise, an elevator manager selling a hedge against grain purchased sells to a speculator who is not interested in the particular wheat which the elevator contains at the time, but who is willing to agree to take wheat of contract grade at the specified time. Without these speculative contracts in abundance it is hard to see how hedging could be successfully managed.

The Cost of Future Trading a Charge on the Produce.—Those who look upon all future trading as gambling, and, therefore, as reprehensible, must be careful in their assertions that the cost of the operations, that is to say, the commissions and brokerage charges, are all to be viewed as subtractions from the income of the producer of the goods. They must be careful because they may prove too

much, at least by inference. For example, if future trading is gambling, pure and simple; if the buyers and sellers of future contracts are dealing in nothing but a game of chance, betting as it were, on the rise and fall of prices, is it altogether clear that such action rests upon the shoulders of the legitimate dealers in, and producers of, the goods in question? Would, for instance, the same argument hold in a contention that all the betting on baseball came, either out of the salaries of the players or out of the gate receipts paid by the spectators? Would it be argued seriously that wagers on elections are a charge on the campaign funds? If, then, the work of the speculators on the boards of trade is gambling and nothing more, is it a defensible contention that they get their income out of the grower of the produce? It may be defensible to hold that the producers or the consumers should stand the necessary expense of marketing, and it may be made to appear that the commissions on actual grain and the charges for hedging transactions are necessary expenses. The speculation outside of these transactions does not so clearly appear as a marketing expense. The burden of proof, however, rests upon those who make the accusation. In spite of the numerous assertions that speculation is a marketing expense, the writer has found no argument to convince him that it is.

Speculation Acts as a Steadying Force.—Before undertaking to answer finally the question as to whether organized speculation is a force tending toward the stability of prices or in the opposite direction, it may be well to call attention to the different forms of argument that have been, or may be, used for and against the contention. To begin with, there is a vast amount of mere expression of opinion. Opinions, even unsupported opinions, no doubt have much weight on some questions, since the questions may be such as hinge largely on beliefs, but such is not the case concerning the one here at issue. It will resolve itself ultimately into a question of fact. The trouble is that the facts are not readily obtainable; it is not even certain that they are always recognizable when obtained. That is to

say, one might make the most careful compilation of facts concerning the ups and downs of prices on boards of trade, but how could one be sure that without the boards of trade the variations might not have been twice as great or half as great? Unfortunately deduction will have to be relied upon to a very great extent.

In addition to deductive conclusions, two comparisons at least may be made. First, comparison may be made between the situation prior to the establishment of the exchanges and the situation subsequent to that event. Secondly, comparison may be made between the fluctuations in prices of produce bought and sold in the exchanges and the prices of goods not so handled. The deductive discussion will be left till the last.

It has been shown repeatedly that fluctuations in prices before the development of organized speculation were not only as violent as, but usually more violent than, they have been since that development. In the case of cotton prices, it has been shown that during the period of thirty-three years preceding the advent of the cotton exchanges, prices fluctuated twenty per cent or more within a given month on twenty occasions. Since the organization of the exchanges, during the thirty-three years 1876–1909 fluctuations of twenty per cent within a month occurred but five times. The comparison of fluctuations of from ten to twenty per cent show similar results, occurring one hundred and eighteen times in the earlier period, and but fifty-six times during the latter period. Even so, it has to be admitted that during this second thirty-three year period, 1876 to 1909, fluctuations in the price of cotton were much more frequent as time progressed, being, in fact, as numerous during the last third of this period as during the former two thirds. In the case of the cotton market, these later fluctuations seem to be chargeable in large part at least to certain rules which were subsequently modified.[1]

In the case of the wheat market, the records show fluctu-

[1] Report of the Com. of Corporations on Cotton Exchanges, 1908, Part IV, p. 26.

ations to have been greater before the time of exchanges than since. Even so, this does not answer satisfactorily the question as to why produce prices dodge up and down in what, to most observers, is an erratic manner during a given day. Demand and supply in a broad, fundamental way are not changing so rapidly. All that can be said is that these minor fluctuations play around a normal from which they cannot depart very far before attracting attention and spurring to activity the counter forces which bring them back. At best they are undesirable.

The second consideration is that of the fluctuations in the prices of products not sold for future delivery. Live stock comes to mind as the greatest example, and any one at all familiar with the market asks no statistical proof of the fact that fluctuations in the price of live stock are fully as violent as those in the grain trade. The live stock fluctuations are deplorable, and some one may be to blame, but dealing in futures is not the explanation of the offense. Potatoes are as erratic in price as wheat could well be, or ever is. The same is true of wool and eggs. Mention should be made of barley, a cereal which until lately was not sold for future delivery. According to the critics of the future-trading system, barley should show a more stable record of prices than wheat or oats. On the contrary, it was much less stable.[2]

Coming back to the logic of the case, we may say with safety that in an organized market speculation is two-sided, and whenever one side is overstimulated the tendency is strong, in fact virtually irresistible, for the other side to be so affected by the situation created as to come to the rescue. This does not mean that fluctuations may not progress to a very appreciable degree before being checked. On the contrary, speculators, being always apprehensive lest some influence should run away with the market and cause heavy losses, are likely to be, through their apprehension, the very cause of the danger feared. For example, a group of shorts, fearing a rise in the market, may bid a little high, and thereby alarm another group who will push

[2] Boyle, *Speculation and the Chicago Board of Trade*, p. 123.

prices still higher, until some calm bear starts the counter movement by offering so freely to sell as to start the price in the other direction. Thus, again, we come to the conclusion that so far as both facts and logic are concerned, there is reason to believe that organized speculative markets exert a stabilizing influence on prices. This does not for a moment mean that markets are as stable as it is desirable they should be, or that nothing may be done to promote greater stability. It rather suggests strongly that speculation is prominent because of the uncertainties of the market, and, moreover, that speculation is a way of meeting these uncertainties and of avoiding serious shocks that might be encountered were speculation left to the whims of individuals unorganized. The information made available; the wide publicity given to the action of a speculative market; the readiness of speculators to deal on one side of the market as freely as on the other side; the large number of minds brought to the point of passing judgment on future prospects; all these must be taken into account before accepting the popular view that fluctuations are caused by speculation.

Conclusion.—This is not to be considered as the last word to be said either by the writer or by others. In all likelihood there will be a succession of conclusions extending over a period of years. However, at the present time it would seem that the hope of improvement lies in the better education of all parties concerned, and possibly in a farmers' organization which may do one or both of two things, viz., either gain the control of a large amount of grain and feed it gradually into the market, or enter the exchange as a dominating influence. With wide information and a desire for stability, they might do what no other agency is powerful enough to do in the way of holding sales to a level governed by an intelligent balancing of demand and supply. Of these possible solutions there is much hope that the first in a modified form may come to pass. It might well happen that the second influence could be put into practice at the same time. When farmers are able to control a marketing agency of such size and efficiency as

to enable them to send their produce to the best available markets in quantities such as are wanted, knowing what is to be expected in the way of later supplies and their effect upon demand, then it may be that the nervousness and excitability of the wholesale produce market may be toned down. That all speculative traits will be eliminated and a steady, regular price projected into the future, is too much to hope.

Quite to the surprise of the public, prominent men in the exchanges have recently been expressing their approval of some limitations on speculative trading. The president of one of the greatest exchanges says: "There should be some restrictions, as either concentrated selling or concentrated buying has an appreciable effect on the market, though they cannot ultimately fix prices." From another exchange comes the view: "Speculators should be forbidden to speculate among themselves, but should be permitted to assume only speculative hazard which grain dealers or millers desire to shift from themselves. Speculators should be limited to what would amount to the sale of insurance to dealers and millers desiring the same, and the activities of speculators should be limited to this extent. The operations of speculators in grain should be made to harmonize with the operations of the members of the Lloyd's at London. These individuals are authorized to sell insurance against business risks of every kind to those desiring to avoid these risks. These members of Lloyd's may later substitute another member of Lloyd's for themselves, if they so desire, and a similar permission should be granted to speculators in grain."

The country dealers in grain are not unanimous in their views on future trading. From three fifths to two thirds of them, according to a survey, make use of futures, and express themselves in favor of the system. Those hedging their deals report a saving, on an average, of one and one fifth cents per bushel, as compared with the results of unhedged deals.

It would seem that farmers' companies are destined to get into the terminal markets, and that legislation against

speculation will persist until the plan of limited speculation is given a trial. The legislation should by all means be national, not state, and whatever the outcome, it seems reasonably certain that speculation will, and should, continue. What is needed is to find and eliminate its objectionable features.

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CHAPTER XIV

DIFFERENT WAYS OF DETERMINING PRICE

The theory that prices must be alike in a given market for a given commodity is subject to a good deal of explanation. For instance, capital is credited with having a very high degree of mobility and a disposition to go where it can earn the most. This should be true particularly of capital in the form of money. No doubt, this tends to be the case, but there are surprising instances of failure of capital to flow as readily as economists seem to think it sure to do. For instance, in two adjoining Wisconsin counties, in fact, in two localities less than two hours apart by automobile, the interest rates on farm loans differed as much as one per cent, for a period of several years. There is no hope of explanation along the line of risk involved, or character or habits of the farmers or the lenders. The farms are good and the security is first class in both instances; the money lenders are not unlike. In answer to the question why an effort was not made by the lenders getting five per cent in one county to go over into the adjoining county and get six per cent, a banker replied, "If we go to your county and offer money at six per cent nobody will be interested in us because there are plenty of lenders at six per cent; if we offer money at five per cent, it is of no advantage to us, since we can get that at home. To split the difference would mean that we would have but a half per cent to pay for all the trouble, and it isn't worth it." So there the matter rested, yet the difference between the cost of a loan in the cheaper market, and the cost of a loan in the dearer market, was twenty per cent. The explanation of the discrepancy is not difficult when one knows the facts. Both are districts of surplus wealth, so far as farming is concerned. One of them has outside

connections for investments of a desirable character at somewhat above local rates; the other has not, and has not sufficient surplus capital to induce any one to establish such a relationship.

A much greater and more puzzling lack of mobility of capital in its equalizing flow is to be seen in the bank rates of a large block of territory in the central and northwestern parts of Iowa, in contrast to the rates in northeastern Iowa and in southern and even in central Wisconsin. For years the rate in central and northwestern Iowa was eight per cent on short-time paper, while in the other sections mentioned it was six per cent. The accumulated wealth per farmer is greater in the high-interest Iowa territory. Farms are worth more per acre and per farm. Debts are relatively no greater; farmers are in every way as prosperous and as ready to offer money for use outside of their personal business. The explanations offered by bankers do not appear satisfactory: there is greater ability to pay interest in northwestern Iowa; there is more money sent out of the neighborhood, there are more speculative investments by farmers in land further west (on this there is no information available); the country is newer. All of these answers seem superficial. The facts, however, illustrate most conclusively that we may, and do, have different prices for the same commodity in what would seem to be, or it would seem should be, the same market.

Instances might be multiplied without end. Land prices are slow to come to a level. It happens that by crossing a river, or a state line, one may find land of equal values, presumably, as judged by an outsider, selling for widely differing prices. But harder to explain than the differences in land prices are such cases as the following: A row of unrelated creameries along a line of railroad, each making approximately the same kind of butter, sells for prices no two of which are alike. It may be easy to explain by saying that the selling agents do not know the value of the butter, and this is probably true, but why don't they take steps to find out? These illustrations are offered merely

to show that price-making is not so simple as the doctrine of the classical economists would lead one to believe.

The Blind, or Haphazard, Method.—This method, or, more really, lack of method, has been in vogue a long time, and still characterizes the practice over a large part of the world, and of any number of individuals in the most advanced parts of the world. This merely means the buying and selling on the basis of the immediate appearance of the supply-and-demand situation as viewed by the parties concerned. It may easily mean that one of the parties has no view of the market at all other than the offer of the other party. Such a situation usually suggests that it is the seller who is without information, particularly where the buyer is a middleman, but it may involve a thoroughly ignorant buyer, who, particularly as a consumer, may pay altogether too much in view of existing conditions.

The blind plunging ahead in price-making is fairly well illustrated in such a commodity as potatoes. The information is meager and uncertain during the early part of the season. A sudden change in the weather may make a difference of twenty per cent in the yield, or a sudden fall in temperature in the digging and shipping season may make a profound change in the available supply. Until recently the potato trade offered a splendid example of the haphazard method. At present it is emerging from that state.

The sale of fruit in a section where there is no established fruit market is a good example of the blind method. The seller knows little about qualities or grades of fruit, and possibly the buyer does not know much more. An instance of this kind occurred in the Middle West a few years ago. On a farm not in a fruit section was an apple orchard of several acres. This particular year it bore well. The farmer was not familiar with the work of harvesting apples. A storekeeper who had never handled any apples in a wholesale way made an offer on them, an offer which he thought was safe. He was surprised to get from the central market to which he shipped the fruit more per bushel than he had paid per barrel. In this sort of haphazard marketing the middleman, who takes a considerable risk,

is likely to get the better end of the deal. Occasionally his lack of judgment carries him just as far in the opposite direction. It is a poor method of doing business, and one which does not speak well for the intelligence of those taking part in it. Extenuating circumstances, however, frequently exist in out-of-the-way places, and in such places the sort of marketing here described is to be found more often than anywhere else. One of the best instances of the blind, unstudied, price-making methods in connection with farm produce was that which was general in the butter and egg market before the days of cold storage. Each buyer bought and sold on the basis of immediate supply and demand, with the result that prices fluctuated greatly from season to season, and varied widely from place to place.

The Speculative Method.—This topic is discussed at length in other chapters and hence will be given but a few words here. The first and most fundamental observation is that some element of speculation is to be found in substantially all marketing of a direct character. The seller does not know what the goods will be worth at a later date, and likewise the buyer does not know. Both are taking chances on future events, one in a passive way by playing opportunity gains or losses against present certainties, the other by assuming an active risk. Only the latter is classed as a speculator.

The speculator is making prices on the basis of his judgment with respect to the probable outcome in the future of supply-and-demand forces. His is a calculated price, but the calculations are made by each speculator individually on information which is at best only more or less reliable, and on commodities which, as a rule, vary greatly in price because of the possibility of substitutes in the form of allied products. Thus, the speculative price is an unsteady one mainly because the speculator has but part of the information needed for forecasting probabilities. No doubt the speculators are willing that prices fluctuate up and down, because it is by matching their judgments on points of this kind that gains are anticipated. The speculator of

the usual type does not often control enough of the supply to exert any appreciable influence over the price. Thus, his usual work is predicting prices and staking his money on his predictions, not determining the price level. His power of manipulating prices has been discussed above.

In order to appreciate the importance of speculation in the making of prices, one should consider the facts with respect to seasonal production of such commodities as the cereals, cotton, wool, dairy products, eggs, nuts, most fruits, and the like, and notice the tendency to a uniformity of price throughout the year. Compared with the situation before there were adequate facilities for speculating—and this means before there were warehouse and cold-storage plants, before there was reliable information or adequate means of financing transactions involving such dealing—prices varied more from season to season than they do now. The speculators are calculating and projecting prices. That they are the best agencies for performing this desirable function is not to be taken for granted. The burden of proof is, however, on the critic. He should show a better way, and should not merely complain about the one at hand, which is doing the work.

The Projected, or Calculated, or Bargaining Method.—These terms have been applied to the work of marketing companies, usually growers' coöperative organizations, which have substantially complete knowledge concerning the supply, and, as a rule, control over the major portion of it. In addition, they have a good comprehension of demand, and, therefore, are in possession of about all the information and power necessary to arrive at a price in accordance with what the market will probably stand. The purpose of the makers of a price of this kind is to get what the goods will bring throughout the season, selling them at such prices from time to time as to induce the buyers to take entire stock during the season. If the price of cranberries, for instance, is set a little high by the cranberry association, and, as a result, the November trade takes less than its usual proportion of the supply on hand, it will be necessary to lower the price in order to put out a cor-

respondingly larger quantity at a subsequent period. The purpose is to get the cranberries out of the way before the season is past.

Is a price made by such a company in such a manner contrary to the best interests of society? There are two things to be taken into account in arriving at an answer. First, is the price higher, the whole season considered, than it would have been under the speculative method, whereby the growers would have sold their produce relatively early in the year, normally on a glutted market, and at a low price? The speculators would have bought the output, sold possibly at a little lower price during the buying season and at a higher price later, making an average not so different from that obtained by the organization. The first question, then, is, Has the public paid more for the goods under the calculated price régime than it would have paid under the speculative arrangement? The second question is, Does the grower receive more under the one plan than under the other? If the grower is entitled to more, in the sense of requiring it in order to keep him in the business and perhaps to encourage expansion and improvements, the public can well afford to pay the higher figure, at least for a time, since it carries with it the assurance that the price cannot remain at an exorbitant figure, even though it may seem for a time to be such.

A calculated price differs from a speculative price mainly in the degree of assurance with which it is projected. For just as the speculative price contains an element of calculation, so also the calculated price contains a considerable measure of speculation. Every producers' organization projecting a price into the future does so on the peril of paying for its mistakes by losses. If it guesses too low, as sometimes occurs, it is difficult to recover what might have been made by putting prices at a higher level later in the season. If it guesses too high, there is the danger of having goods left on hand with which to glut its own later market. Why not withhold permanently, or even destroy, part of the goods, rather than permit them to lower the price and aggregate value of the remaining sup-

ply? When this is done the public will have a real, instead of a fancied, case against the producers, on the ground of limitation of output. Such action has not thus far been taken, or at least no evidence in proof of it is available.

Slightly different from, though distinctly similar to, the calculated price is the price that is arrived at through the give-and-take process of bargaining. It is indeed a calculated price, and, like other calculated prices, it contains a measure of speculation. Among the best examples of prices made by this process is the price for city milk. It cannot be made by bidding on given consignments of the commodity. There is no organized exchange, no bidding from day to day for future delivery. The commodity does not lend itself to treatment of this kind. Not only can it not be stored, but it is imperative that there be a reasonable degree of regularity in the quantity delivered from day to day. The basis of setting a price on the milk is bargaining. In contrast with the speculative market for grain, the seller has something, instead of nothing, to say concerning a given quantity of supply. Of course the seller of grain can always withhold the supply, but he does not argue over the price of that which is shipped or to be shipped. But the milk price is argued. Whether the bargaining method of calculating a price results in giving an appreciable amount of power to the seller depends very much on the particular circumstances at the moment. When milk is scarce, the seller can hold his own in the argument; when it is plentiful, he cannot. This differs from the calculated price mainly in the fact that the latter is usually undertaken by a group of producers in possession of the major part of the available supply. Buyers must deal with this group or go without the goods. With the milk producers this is not altogether true. There is other milk which could be had for almost any city market, and the bargaining is done with that fact in mind. The real point to the bargaining method, the feature that makes it worth while, is that it enables the producers to get the logical competitive price promptly instead of tardily. A

price made by this means is one that is set on the basis of a presentation of facts by both sides. It does not even imply equal bargaining power. There may be any degree of inequality in this respect. Even so, the producer, who usually is the weak bargainer, if there is a weak one, learns through the bargaining process the main facts surrounding the transaction. A knowledge of these facts is at least a necessary beginning to effective bargaining. Of course, there is not much power that can be brought to bear by a group of sellers who control only a small amount of produce out of a great general supply alike in kind. A situation of that sort hardly suggests bargaining at all, the case is so one-sided. Bargaining attains some dignity and force when both sides are anxious to come to an agreement. Such appears to be true in the settlement of many labor disputes.

Thus, a calculated price may involve a virtual setting of a trial price by the sellers, or it may manifest itself in such a series of interviews between producers and distributors as are occurring in the milk trade. In the setting of a price on milk the producer projects in advance what he feels to be a reasonable figure, but instead of saying to the buyer, "This is my price, you may pay it or go without," what he does is to bring all evidence and argument available to bear on the discussion, with the purpose of proving that the market forces will warrant the figure. It is the business of the producer in bargaining to show that the price he asks is a necessary price in view of a period of time. He may threaten to withhold the supply, but the final decision must be made on the basis of the available supply of those taking part in the parley, together with a potential supply of others who may choose to enter the market in question. In the calculated price at its best there is presumably not enough potential supply outside the amount controlled by the makers of the price to effect a breakdown of the market.

The Monopoly Price.—The monopoly price has been well defined as the price which will bring the greatest net

returns, and it must be set by some group, or by a single person, having control over the goods on which the price is set, so as to escape competition. The main interest farmers have in monopoly price is in connection with the necessity of paying it. Seldom, indeed, have farmers been able to exact a monopoly price of others. The price projected in advance by such producers as the raisin and walnut growers may have the outward form of a monopoly price, but it lacks the prime essential of control over the supply, which it from year to year will be required to handle. When growers like these reach the point of withholding a part of the supply, or of preventing the increase which individuals may choose to make for succeeding years, it will be time to begin to talk about a farmers' monopoly. Until that time it serves only the ulterior ends of certain officials who wish to make a showing before the public. A real or dangerous farmer monopoly has not yet been perfected. However, it must never be assumed that such a development is impossible. It does not seem imminent, but should it occur, it will be socially objectionable, just as other monopolies are objectionable—that is, if left unregulated.

"Feeding the Market," as a Price-making Measure.—While this may not seem like an effective way of arriving at a price, it is, nevertheless, a means of getting out of a product what the market at a given time, or over a period of time, will afford. Carried to its best development, this method of arriving at a price has almost limitless possibilities. Moreover, it includes much of the best in the methods just discussed in outline. There is in it an element of speculation, though it plays a subordinate part, and an element of a calculated price, with a certain degree of bargaining power. In general, these methods are not outstanding, owing to the dominating feature whereby the management directs the movements. To begin with, a market cannot be "fed," that is, supplied with the requisite amount of goods in an orderly manner, avoiding gluts and undue scarcity, unless the organization in charge has control over a considerable supply. It does not follow

that it have control over the major part of the year's supply, though to reach the highest degree of success such must be the case.

Feeding the market may involve one or both of two important practices. It may be done by sending the goods to the best available market to which the supply is tributary, involving, perhaps, the shipment of wheat to any one of our several terminal markets or to a market in Europe. Or it may involve the withholding of a portion of the supply for a time in order to prevent glutting the market. Either or both of these practices are entirely desirable from the standpoint of the growers and, likewise, of the public. It is a way of getting for the grower a price based on an orderly operation of supply and demand, in place of what the same forces working blindly would bring about. By this arrangement, as in others noted above, the producer may get more than he otherwise would receive, without, at the same time, raising the price which the consumer has to pay. This is possible because, by the orderly procedure of feeding the market, a relative degree of stability is maintained, in place of violent ups and downs which give opportunity for undesirable speculation.

Feeding the market, if carried out to any great extent, involves not only control over the produce handled, but machinery for handling it, such as storage and transportation facilities, agents at the proper points, financial connections of an adequate character, and such like. It is easy to advise farmers to "feed the market," instead of blindly selling when they happen to need money, but it is quite another matter to put the plan into practice. Illustrations of this and other price-controlling practices will be given in later chapters.

Price-Fixing.—From the standpoint of the farmer, the main price-fixing experience of recent years was that which occurred during the World War, and pertained primarily to wheat, with some less complete applications to milk and to meat animals. It is true that this experience was during the stress of war only (continued in the case of wheat to include the crop of the first year after the war), but the

impression left in the minds of many farmers and others is that price-fixing, if intelligently done, is desirable and workable for ordinary times. Although not singularly satisfactory during its existence, the régime looks, in contrast with the demoralized prices of the succeeding months, like an oasis in a desert.

Before taking up the merits and demerits of governmental price-fixing it may be well to notice briefly the circumstances surrounding the price-fixing which really was put into effect. We entered the World War in April, and four months later the price on wheat was set by a committee chosen for that purpose by the President. The committee was made up of representatives of about all interests. It had very little information to work on, but it was necessary to come to a speedy decision. In spite of all these handicaps the price was determined within a very brief time, about two weeks, by a compromise vote.[1] The price fixed was in no sense scientific; it was just a common-sense estimate of what it ought to be, yet there was no unanimity of opinion as to the basis on which it should rest. A mingling of cost-of-production reasoning, marginal theory of value, ability to pay, and patriotism of a vicarious type figured in the views. It was a desperate case. Something had to be done, and probably what was done was about as satisfactory as could have been done through any amount of deliberation.

The question is, Does price-fixing by authority offer a desirable way out of the marketing difficulties? The price so fixed may very properly be called a "fair price," even though its fairness be assailed never so vigorously in any given case or in all cases. Price-fixing, whenever tried, is bound to carry a multitude of problems in its train. For instance, if the price of wheat is fixed, it is necessary to fix the price of flour and the prices of mill by-products. As a consequence of this price-fixing a whole army

[1] The meetings of the committe lasted two weeks. An active attempt had been made during two months to gather information bearing on the case.

of officials is needed to see that all millers and dealers comply with the law. There is danger that some one will offer the miller more than the official price, and, being human, he will be tempted to take it. Later the product which was sold at the regular price, will reappear in some other form, as bran in commercial mixed feeds, and will be sold for a high figure. Thus, if the price of wheat is to be regulated, why not regulate all prices dependent on wheat directly or indirectly, for, if it is not done, injustice will surely result?

Other complexities present themselves. If the farmer is to sell his produce at a fixed price, which he will not consider a high price, as a rule, how about the prices he has to pay for equipment and supplies? Shall the price of wheat be $1.50 by government edict, and the price of a self-binder $200, set by the International Harvester Company? If we are to have price-fixing it will of necessity be on a very great many commodities. Then will follow investigations, and if satisfaction cannot be established with respect to the profits made, as viewed by those who pay them, as well as by those who receive them, the demand for outright socialism will be irresistible, and no doubt it would be a blessing in contrast. We are long past the childish faith in the beneficial working of free competition, but this does not mean that under the régime of private property we can eliminate substantially all competition from the price-making arena.

Price Ratios.—Another phase of price control by the government must not pass unnoticed. This is the establishment of a ratio. Price-making by this method came up during the World War for serious discussion in connection with two farm products—milk and hogs. It is a variation of the cost-of-production doctrine, backed up by government authority. A Food-Administration commission undertook to put the ratio method of price control into practice with respect to hogs, making the price thirteen times the price of a bushel of corn. Figures were obtained showing that something like this ratio had been necessary during past years to stimulate hog production,

and stimulation was what was wanted. The thirteen-to-one ratio was to apply to the hog production of 1918–1919. Since it was shown that a hundred pounds of live pork could be made out of ten or eleven bushels of corn, and since, moreover, hogs may be fed on something cheaper than corn, for quite a large part of the gain, real profits were in sight should the government succeed in keeping the price at the proposed ratio. There was no absolute guaranty. With a margin of profit large enough to be genuinely tempting, why would not a farmer bid corn up in order to produce more weight of hogs? And if he was to bid it up where would the bidding stop, with the margin always just as great, no matter how high the price should go? It was a clear case of an attempt at perpetual motion, with the public, through the government, undertaking to pay the bills of the experimenter. Little wonder that a sober second thought on the part of the Food Administration resulted in a withdrawal of the proposition and in the substitution of a plan more workable, though less pleasing to the farmers.

To fix the price of one commodity in terms of another, such as corn and hogs, where the one commodity is used primarily for producing the other on which the ratio price is guaranteed is a hide-and-go-seek undertaking. In the case of milk production something approaching the ratio method may be more feasible because of the wider range of dairy feeds, and because the dairy feeds are used for so many purposes that the bidding for them by the dairyman is not likely to be such a disturbing element as is the bidding of the hog raiser for corn.

If the ratio method is to be applied, it will be necessary to establish a statistical department of the government, put the matter on an index number basis, thereby spreading the basis of the cost over the actual list of commodities used in the feeding, as corn, oats, barley, tankage and grass, for hogs, and determining the cost price first of these feeds, and through some constituted authority translate these figures into the ideal or guaranteed price. Under the stress of war we were willing to submit to all manner

of inconvenience, some injustice and loss, in order that the war might be prosecuted to the full. In time of peace no such patience will be shown. Should the ratio price-making method ever be tried in earnest, it is more likely to be as a criterion for bargaining, than as a rule adopted in advance for the actual determination of a price on an adopted ratio. For instance, milk seems to be a commodity which lends itself to the bargaining arrangement about as definitely as any. It might be helpful to have all ascertainable facts made available on the occasion of the bargaining. The value of such information would consist not so much in the possibility of translating costs into prices as in predicting the effect of proposed prices on the future supply. Here, as in government price-fixing, the statistics must be ample and reliable. They will even then be a criterion about which to argue rather than an ultimate, concluding means of settling the point at issue. This will be true because no one can predict the outcome of supply and demand in terms of a ratio of costs to price for any length of time in advance, and unless this can be done the coveted goal is always receding and is never reached. The search for an automatic method of solving the vexed price question will probably be as prolonged as the quest for the philosopher's stone or for the fountain of immortal youth. But just as the failure of Ponce de Leon does not discourage the seeker after health, so the breakdown of a pet theory in the form of a new discovery should not discourage the seeker after further light on the subject of market price. Nevertheless, the hope seems to lie in the direction of organization and effort in accord with the view that prices are made by the bidding of buyers on the basis of offerings, rather than in the direction of cost-of-production labyrinths or monopoly havens.

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CHAPTER XV

COSTS AND FAIRNESS, AS PRICE DETERMINANTS

The cost of production and its relation to price is as old as economic thinking and as persistent as religion. One is almost tempted to admit that a doctrine so old and so persistent must of necessity possess more than ordinary merit. It is not necessary here to go into explanation of the age or the endurance of the cost-of-production theory. Without exception, all of the earlier economists believed in it in one form or another. Little wonder, then, that all of the farmer organizations down to the American Farm Bureau Federation, and, to some extent this body has professed an unshaken faith in the view that every producer is entitled to receive, in the price of his goods, a return covering at least his costs in growing or making the goods.

The Cost-of-Production View Seems a Natural One.—There seems to be something natural in this doctrine. To assert, or even to prove, the naturalness of it, does not, and could not, get so very far toward proving its soundness. However, a few words regarding the reason why it is so widely held may not be out of place. Probably from the point of view of the producer the first thing that comes to mind when considering the selling price is the cost of the object of sale. If it has cost him little he feels that his gain is great and he is anxious to offer as much of the article as possible. If it has cost him much he feels ill rewarded and is disposed, assuming that he has the power of free choice, to produce less. His costs loom larger than his reward.

Another explanation of the widespread conviction among farmers that a man is entitled to pay equal in value to the expense of production, is the almost universal belief that others, particularly manufacturers and middlemen,

are in a position to exact, in the prices asked, a return equal to, or above, costs. Whenever the case is up for discussion the usual instances brought forward as typical are those involving a monopoly element. The price of steel products, of anthracite coal, of railway services—these are held up as examples of what the farmer would be doing respecting prices were he able to get what he ought, in justice, to receive. These views are undoubtedly founded on the instinctive feeling that a laborer is worthy of his hire. For what is the pay given for produce other than reward for service performed?

To What Is One Entitled?—If one claims to be entitled to some particular property or reward he should be able to show on what the claim is based. In the case of the cost-of-production doctrine, the claim is vaguely based on the theory of natural rights, a theory which has so often been exploded as to require no attack here. Is the laborer worthy of his hire? A worthy laborer who does what his employer wants done, no doubt, is. But should the laborer undertake to employ himself, and live on the fruits of his own toil, he will be rewarded according to his ability to produce that which satisfies his wants, and to the extent that he fails to satisfy his wants he will, of necessity, go unrewarded. Just as truly as this man, in employing himself, decides to produce for others, with the prospect of exchanging his produce for others' goods with which to satisfy his wants, he will inevitably find that the goods which he produces will be balanced against the wants of those who receive them, and just as in his own case, if he fails to satisfy those wants he will be poorly rewarded. If, moreover, he should continue to furnish goods for the satisfaction of a want already relatively nearly satisfied, that is, so nearly satisfied that other wants loom larger, he will again be poorly rewarded. It is necessary to produce things that are wanted, and to the extent and the degree that they are wanted they will be paid for.

How then will fare the man who comes to the market place with goods over which he has toiled industriously and painfully, but which meet the dulled appetites of

customers already surfeited with those particular goods? Is he entitled to a rich reward because he worked honestly, hard, and long? From the standpoint of economic law there is no title eligible to record for such a claim. The producer must bring to the market that which is keenly wanted if he is to receive a gratifying reward.

Whose Cost Is to Be the Basis of Price?—In every cost-of-production study yet made, one outstanding fact has been discovered: Costs vary greatly. Not only do costs vary from man to man under apparently like circumstances, but they vary from farm to farm, from district to district, and from season to season. Coming into every market known are quantities of products which to the buyer are alike, but which show wide ranges of costs. Whose cost shall be taken, since it is assumed that no one will propose to pay each individual according to his own costs? It will not do to pay all on the basis of the average cost, because that will leave half of the producers on the losing side of the line. To take the highest cost as the criterion is no better, since in all probability that would result in a great overproduction. A way out of the dilemma has been proposed. The price is to be set at the "bulk line." Just where this line is, no one knows; it has been suggested that 80 or 85 per cent should be included under this line, that is, the price should be high enough so that, not to exceed 15 or 20 per cent would, or should, produce at a loss. It really doesn't matter where this line is unless we are to return to price-fixing, since the matter has only academic or political significance. Studies on this subject do seem to show that a price which covers the costs of about 85 per cent of the producers will probably keep the supply coming. It is a rather tangible and ingenious way of begging the question, so far as price ethics go. If prices cover the cost of 85 per cent of producers things may be counted normal, even fair. If they do not, the condition may be judged abnormal, and a readjustment anticipated. If the readjustment does not take place, a further study will determine a new point at which to locate the bulk line.

Joint Costs.—One of the difficult features of the cost-of-production formula is to untangle the maze of joint-cost figures. Of course the first trouble is in finding the figures, but that can be done if not too much analysis is demanded at the outset. However, the correct way of separating the cost of milk from the cost of veal, of pork, of grain, and so on, has not been clearly determined. The interpretations required in dealing with figures obtained from producers are such as to shake one's faith in the findings.

Theories of Accounting.—After it is determined that a cost-of-production basis of prices is desirable one problem that is sure to arise is that of the selection of the cost theory to be followed. It is claimed by commercial accountants that in business accounting all intermediate goods, such as materials on hand, must be entered at the figure which they actually cost, and not at replacement value. It is also stated that the plant, such as a factory, is carried on the books at cost and not at selling value. This seems to be the ideal, but no sooner is it stated than exceptions, and, moreover, unforeseen and inexplainable exceptions, are admitted. For example, after stating that the value of the plant should be carried at cost, it is admitted that in the case of a plant which was built long before, or the original cost of which is not ascertainable, it is in accordance with good accounting principles to revalue. All of which means that a large measure of common sense is needed in accounting as elsewhere, but at the same time the science has not progressed to the point where costs are reckoned on a uniform known basis.

In considering costs of production in agriculture, accountants in the general field usually maintain that intermediate products, like feed on a dairy farm, should be entered at cost. The farm accounting students have, as a rule, held that the better method is to allow market value at the farm for such goods. At times a widely different cost figure will result from the two methods of procedure. For instance, when feeds have risen sharply in value they will be worth more than the cost of raising. When they have declined sharply in value, as in the latter months of

1920, they are sure to be worth less than they have cost. The farmer, in his own mind, unguided by a theoretical cost accountant, will almost invariably count his costs on the basis of market value at the time, that is, on the basis of what he could get for the feed he has raised, or what he has paid for, or will pay for, the amount bought. He holds this view, not from any sinister motives, or because he thinks one system inherently better than the other, but because the one fits his type of business and the other does not. Keep in mind that we are talking about intermediate products, that is, products used for making other products. The case of wheat production is different, since there are few intermediate products. In the case of the dairy or of stock feeding, the whole business is secondary to another business, namely, farming, or growing crops.

The dairyman thinks of his feed in terms of its market value, because he has the choice between feeding hay and grain to his cows and selling it for some one else to use. It does not occur to him, therefore, to go back to the cost of hay and silage when asked what it costs to produce milk. On the contrary, he begins at once by finding what he can get for his feed, and counts that as one of the costs of producing milk. This may give him two profits, but there is nothing fundamentally wrong about making two profits. They may be rather large, they may be small when added. On the contrary, one of the so-called profits may be negative, or they may both be negative quantities. It is neither a question of the amount of profit, nor a question of right and wrong, but a question of figuring costs so as to fit the farmers' thought and practice.

The Relation of Costs to Price.—The relation of costs to price is close and important, though not that of cause and effect with cost as the cause and price as the effect. It is rather the other way around, though this does not tell the story. Price is the expression of value in terms of money, and the active agent in determining value is demand. Costs are effective in determining the supply of a given commodity, but it is much more nearly true to say that

price is the active agent and cost the passive agent, than to put it the other way around. High price will follow high cost so long as the demand will stand it, but always with respect to a lessening quantity. Low price will result from low costs so long as low costs result in more goods. Even so, goods will not sell for a given price because of certain costs. For this reason it follows that a given producer is obliged to keep his costs below the selling price or go out of business. Those who keep well below make a profit. Those who insist that they must get a certain price because of costs of a given amount are simply kicking against the pricks.

There are real occasions for keeping cost accounts, but the main one is in order to know whether to produce a given line of goods—whether to strive to produce at greater efficiency, or to try something else.

A Fair Price.—Nothing appeals to the average civilized man more strongly than fairness. Fair means equitable, reasonable, just, and what could better satisfy one's view of what a price should be, so far as words are concerned? Few people, indeed, would care to go on record as wanting unfair prices. The reading public is very familiar with the expressions: fair wages, fair rates, fair charges. Why not, then, fair prices?

The Popular View of a Fair Price.—Whatever definitions may be given of fair price by dictionaries, or by courts, the farmer, laborer, and purchaser of goods will continue to interpret the word in a very simple, unanalytical manner. To the laborer, it means a wage which will enable him to live, support his family, and accumulate something for old age. To the buyer of goods, it means a price which contains no unusual or exorbitant profits, and which is as low as the prices of similar goods sold by dealers other than the one whose prices are under consideration. If A sells sugar at 10 cents, it is manifestly unfair for B to charge 12 cents for it. In the case of the laborer, if carpenters get $1 an hour it is unfair to offer a painter but 80 cents. Or if laborers in the building trades in Cleveland get $1 it is unfair for the Chicago

building contractors to insist on paying but 90 cents. From another standpoint, it is considered unfair for a contractor, or dealer in goods, to make conspicuous profits, while those who pay the prices charged, or receive the wages offered, are conspicuously unprosperous. Time often enters as a consideration to the fairness or unfairness of prices. If during a given time it has become customary for professional men, such as physicians, to charge $2 for an ordinary house call, and later they raise the charge to $3, there will assuredly be, as a rule, a feeling among their patients that the increase is unfair. Later, when the public has become accustomed to the new figure, the feeling that it is unfair will probably disappear.

Fair price, from the standpoint of the farmer, substantially always means a price which will cover his costs and afford something in addition. To him it seems unjust, unreasonable, inequitable, unfair, that he should be obliged to take less for goods than they have cost him. Feeling that prices are unfair leads to an attempt to locate the blame for the situation. This suggests the next topic.

A Fair Price Is an Authoritative Price.—Fair price means "fair" in some one's estimation. It follows, therefore, that the price is *consciously* established by some board or organization. Fairness is a matter of judgment. It is a question for a judge or a jury, a matter of legislation or arbitration. It is unthinkable that prices will strike a fair level and stay there spontaneously. They are continually changing, and what assurance can there be that they are fair after a change has taken place, even though it had been decided that the price before the change met the condition? Probably after the change one party involved would be sure of the fairness, but the other just as likely would not.

If we are to have fair prices in place of competitive prices, we must have fair-price boards, and these boards must say what the prices are to be. As a matter of fact, that is what an arbitration board for the settling of a labor dispute really is. In commodity prices such cases seldom arise. However, during the World War we had

such boards and commissions and they set prices which may very properly be called fair prices. Such was the $2.26 price on wheat. Fair to whom? it will be asked. Fair to all parties concerned, is the only answer. The farmers felt that the wheat price was unfair from two standpoints. It was unfair as related to the unregulated prices of certain other farm crops, notably cotton, and it was unfair as related to the unregulated prices of goods the farmer bought, as, for instance, clothing and farm machinery.

It is a perfectly plain case that a fair price can be fair only as it relates itself to prices of many articles and to many people. What seems fair to one will just as surely seem unfair to another, and both sides must be taken into account. Should the farmers gain sufficient strength to enable them to exercise price-making power over their own produce it probably would seem to them that they were charging fair prices, but to the buyers it would have a different aspect. Legislation and counter organization would follow, and the question of fairness would come for final judgment before a tribunal of some sort. The decision in a disputed case is seldom left to one of the interested parties.

It is not infrequently suggested that, in the case of farm products, fair prices may be arrived at by committees composed of farmers, on the one hand, and consumers, perhaps laborers, on the other. This has a fine outward appearance, and one should hesitate to deprecate a proposal to bring brotherly love into the business world. It suggests strongly the scene of the lion and the lamb lying down together. Though the statement may appear cynical, it may be said that these two animals of diverse dispositions have lain down together on many occasions, but only one of them is at such times ever visible. While producers and consumers continue to live many miles apart and live lives which are not in many respects comparable, it is a forlorn hope that the city people will agree to a price on farm produce satisfactory to the farmer, or that the farmers will serve satisfactorily in setting prices on city-made goods.

The complexities of the modern market are not likely to be reduced to such simplicity in the near future.

Another view of the meaning of fair price is presented by an economist who has defined fair price as the price which will give to the farmers as large a return for their skill, energy, and capital, as is received by consumers and by the producers of goods which farmers buy. This is an interesting attempt to make tangible an elusive idea, and this view has become popular. All will admit that farmers should strive to live on as high a plane as possible. In doing so they will undertake constantly to compare their lot with that of others and will be dissatisfied if they believe themselves living less well than their fellows of equal training, attainments and opportunities. This comparison is the cause of many changes of occupation, including the movements away from the farm on the part of many farmers, and especially of farmers' sons and daughters. The hope is to get more out of investments and efforts. Why one should say, however, that the relative reward is a matter of fairness, is not altogether clear. Inequalities resulting from unfairness, presuppose that some one or some group is responsible. Since no one and no group can be held responsible for a given level of prices, it hardly seems that progress toward a solution of the difficulty will be made along the line of criticism relating to fairness. To do so would involve a measurement of the rewards received by farmers, by laborers, and by capitalists. At best, these measurements would show roughly the material relationship of the income, possibly the amount which the different classes might, presumably, save out of the annual income. It must be remembered that such comparisons are not easily made, in the first place, and the interpretation of the facts is still more difficult. How does the skill and energy of the farmer compare with that of the carpenter? Who knows? Yet that question must be settled before one can presume to decide whether or not the two classes in question are receiving equal rewards for service rendered. Again, should the difficulty just mentioned be solved or waived, it remains to be shown how

each of these and other classes of people value their own income when everything is taken into account. No small part of the income which makes up the reward of labor is psychic. The reward which a farmer receives for his produce is in part the freedom, the fresh air, the contact with nature. A part of the city man's income is the shelter from the elements, the conveniences, the society of his fellows, and these are component parts of the prices which each respectively receives for his goods and services. It will be an ingenious index number, indeed, that will show for each of these diverse classes of producers their several rewards so that comparison can be made with respect to fairness. The idea of fair price is a useful one in connection with such cases as come up for settlement by boards and commissions. We have supposedly fair prices for gas and electricity. While coal prices and freight rates remain stable it is possible to pass with some degree of intelligence on what is a fair wage for the coal miner. In the case of farm products the predominating force is competition. In a modified form competition is likely to hold first place indefinitely, which is to say that fair price, no matter how it appeals to sentiment, is not likely to displace the forces now dominant. Until such time as prices are made by authority a fair price will continue to be a will-o'-the-wisp, a pot of gold at the foot of the rainbow. It is to be hoped that prices will not be unfair, but it is not to be hoped that fairness will become the determining force in price-making in a competitive field like agriculture.

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PART II

REFORMS THROUGH GENERAL ORGANIZATIONS AND POLITICS

CHAPTER XVI

FARMERS' ORGANIZATIONS

Introduction

It often has been remarked that the farmers are independent, and in many ways they are. A hundred years ago the farmer, as a rule, was independent of the world's market; he produced for the community of which he was a part, and the community was a small one. He received in most instances the price for his produce which the consumer paid, or, if not, the difference was the modest margin made by the village merchant. So far as educational organizations were concerned, he had not yet felt the need of them. His education was, in school, the same as that of the men of other callings, and for special training he had served an unofficial apprenticeship, usually with his father. Further than this it was a rare case indeed where there was need felt for additional preparation. Agricultural colleges were unknown, fairs had not become frequent, and agricultural societies were in their infancy. Agricultural journals were almost unknown. The farmer was independent, but he was neither influential nor prosperous, except on a few occasions when unusual prices gave him prominence. The farmer of this early period had learned some splendid lessons of coöperation, such as working with his neighbors in building log houses, roads, and bridges. But these undertakings had comparatively little to do with the main agricultural operations. With respect to such, each farmer made his own observations and drew his own conclusions as to the crops best suited to the soil, or most likely to bring a good price after the next harvest time. He read the same literature as did the tradesman of the village. He attended the same gatherings, and voted the same ticket. He

was indeed part of the community, and the community was mainly agricultural, yet the consciousness that there were distinctly agricultural problems was a matter for a later day. The problems with which the farmer of that period struggled were simple, mainly local, and the farmer himself was satisfied to undertake their solution unaided.

Faith in Competition.—During these years competition was being exalted. It was the view of most economists that the individuals of any industry, if let alone, would, each man for himself, work out the program best fitted to advance his own interests, and that each man doing the best things for himself would at the same time, and as a matter of necessity, thereby do that which was best for the community. Organization was on this account superfluous at best, and, moreover, it was likely to be much worse than superfluous, since it would ordinarily retard the action, the initiative, the enterprise, of the individual. Competition was lauded, almost worshiped, as the principle which, if left to itself, would solve all the economic ills of the day. Thus, all manner of business coöperation or association among the masses of men came to be regarded as undesirable. Business men, so-called, did not apply this to themselves, and their organizations continued to grow throughout the period, but the sentiment of the time acted as a restraining force against all tendencies toward widespread associated effort. It helped to develop the spirit of individualism which has made the American farmer one of the hardest of all men to enlist in coöperative undertakings. Competition has been called the life of trade. This may be a good characterization, but, though it may mean the life of trade, it is often at the expense of the tradesman.

Competition Eliminated.—In more recent times there has been little real, practical reliance on competition as the motive force in business. True, it has persisted to a great degree, but it is not because the men most vitally concerned and, at the same time, able to exert influence were so partial to it. Quite the contrary. Whenever influential men, such as capitalists or manufacturers, had an

opportunity to limit competition they did so without hesitancy, and to their own advantage. The laborers, who for a quarter of a century were forbidden to organize, formed unions which are apparently permanent, and which are substantially all-inclusive, so far as skilled workmen are concerned. Thus, at the present time the great bulk of manufactured goods is produced, not by individuals, but by corporations which in many cases have absorbed great numbers of independent enterprises, and by doing so have brought competition to a different level, or, as in the case of many transportation companies, have eliminated it altogether. On the other hand, the laborers have learned the power of collective bargaining, and few indeed of the skilled workmen depend on themselves for making bargains concerning the conditions under which they shall work, or the pay they shall receive when the work is done. Manufacturers, transportation companies, and great mercantile establishments have learned the lesson of working together; laborers to a lesser degree have learned the same lesson; farmers are learning the lesson, but, except for the unskilled laborers, they are the last of the great class of America to learn that there is strength in union, and that, alone, the struggle is a hard one and the rewards are meager.

Few Fortunes in Farming.—It is true that rich land, granted almost free of cost, together with other resources, such as water and fuel, and building material, abundant and inexpensive, has enabled the American farmer to make a living, and in a few instances a competence, but it is needless to pretend that these conditions have brought him wealth in marvelous abundance, or that he has not earned by hard and patient labor all that he has received. An occasional sudden rise in the price of land gives an added amount of wealth to be left to his children, but it is a difficult matter during any long period for a farmer to make more than a nominal wage income for his labor and the average commercial return on his investment. In order to do better than this business methods of a high order are required, and business methods mean coöperation with others in all those things which can be better done in that

manner than alone. This is the order of the day in other circles and is coming to be among farmers.

The farmer's life and business are such that he is much alone. A carpenter cannot well build a house alone; a miner cannot by himself do much in digging coal out of the ground; no man can operate a railroad unaided; but a farmer can plow his ground, plant, cultivate and harvest his crop, and haul it to market with little or no assistance. We all like to get along by depending on ourselves if possible, and for this reason, if for no other, the farmer tends to his own affairs and lets his neighbor do likewise. Thus, the farmer is the last to organize, but he is as much in need of the advantages of organization as are the other classes which have found it so beneficial. And the farmer of to-day is waking up to the fact. Among the American farmers are a large number of effective, vigorous organizations which are correcting the evils above mentioned.

The progress of farmers' organizations in Europe has been much more rapid than in America. For over a hundred years the Germans have had coöperative credit societies. For shorter periods of time they have had organizations for the purchase and sale of produce and for the ownership of agricultural implements. The Danes have been very thoroughly organized for a generation or more, and the French, Belgians and Austrians have made, and are making, strides rapidly in the same direction. The European farmers organize because it is very necessary for them to save every penny possible. They are doing business on a much narrower margin than that to which the American farmer is accustomed. For this reason an organization which can effect a saving of even five per cent makes a strong appeal, although in this country too many of the farmers would find the undertaking irksome without the prospect of greater reward. It often has been said that coöperative business must be run by coöperative men, and, while this is true, it is a more important truth that men will coöperate when circumstances are such that they cannot accomplish their desired ends alone. The European farmer has been driven

by force of circumstances, hard circumstances, to find a way out by joining hands with his neighbor who, because he was similarly situated, was ready to coöperate. The American farmers have worked together in a few instances, greatly to their advantage, but in the main the organizations are still in the formative stage. They may not be needed as badly here as in Europe, but they are needed badly enough, and, if established before conditions become grievous, they should in great measure prevent the extreme distress which has overtaken farmers in other lands and compelled them to coöperate.

Two Main Kinds of Organizations.—There are to be noted two different kinds of organizations which have been attempted among farmers. The first in point of time of establishment is the general, or all-inclusive, organization. Examples of this are the agricultural societies, clubs, and fairs. Following these come a series of organizations a little more restricted in the matter of membership and still not confined to farmers whose interests are in any narrow sense identical. Examples of these are the Grange, the Alliance, the American Society of Equity, the Farmers' Educational and Coöperative Union, The Non-Partisan League, and much different in character, in fact, so different as hardly to belong in the group, the Farm Bureau Federation. The second of these types is the organization designed for a specific purpose, such as the coöperative cheese factory, alone or federated. This organization may, like the foregoing, interest itself in the general welfare of the community, though its main purpose is not general welfare but direct money profit to its members. An organization of this type brings together farmers interested in a given kind of agriculture—dairymen, fruit growers, vegetable growers, and the like. The first of these types may be termed farmer movements, the second may be called agricultural coöperation. However, the first type may conduct a considerable amount of business, while the second may include important educational, political, and social features. The classification is made on the basis of the principle which predominates.

The Beginnings of Farmer Movements.—During the early years of the nineteenth century there were many agricultural societies and fairs, organized with a view to the technical improvement of agriculture but with little or no thought of a general or national organization. Each little organization was an entire unit in itself. About 1830 an effort was made to unite the farmers of the country. Unfortunately, however, the inspiration did not come from the farmers themselves, nor was the purpose the improvement of agriculture. The source of the movement was among the newly organized labor unions, and the purpose was to enlist the farmers along with the laborers in what was looked upon as a common cause. The new association was called "The New England Farmers' and Mechanics' Union." Its membership was never great and its influence, so far as the farmers were concerned, was negligible. There was really no hope for an association of this sort to succeed. The farmers of that time had hardly enough in common to warrant an organization among themselves, let alone enough in common with another class of men to make possible a joint association. With the exception of this effort, there was no attempt at general association until after the Civil War.

The Character of the Farmer Movements.—It will be noticed that the American Farm Bureau Federation is included as one of the farmer movements. It has much in common with the great general organizations and so is included with them, but at the same time it has qualities so unlike the dominating traits of these organizations as to make it seem almost out of place in such a classification. Primarily, it is a concerted movement to assist groups of farmers organized on the basis of commodities, to market produce in an orderly manner.

The farmer movements have one predominating characteristic. They represent a revolt against the existing state of things and a plan for improvement, but at the same time the plan is one of many parts. It may include marketing, finance, education, and other branches of a more general character. The recent attempts at organization, with the

exception of the efforts of the Non-Partisan League, are almost exclusively centered on the marketing of some specific kind of produce. To an organization of this sort political considerations are entirely secondary. A farmer movement represents a rebellion against the attitude of the politics of the country toward the farmer, and a determination to cure the troubles by legislation. In addition to the political undertakings, there have been, without exception, plans, always carried out in some degree, for the capture by the farmers of the marketing machinery. Sometimes this has followed definite lines of marketing, as the marketing of cotton by the Farmers' Union, but uniformly a large part of the energy has been dissipated in a wider circle of efforts. Instead of taking one part of the field at a time and, if possible, conquering it, the rule has been to make an onslaught along a whole line of defenses at the same time. The numerical voting strength of the farmers of the country has appealed to the imagination, and, in two instances at least, the vision of a union of farmers and laborers has been the means sought for assuring success. The union of these two unlike groups seems to many agitators to be logical and possible, but the coherence of such an alliance still awaits demonstration.

For all the farmers of the country, or for the majority of them, to unite in a single program of political effort is perhaps possible; one must hesitate in saying that any combination of political forces is impossible; but that such a thing will come to pass is less likely than that the farmers will have a common cause of action in the political field. They may indeed have much in common. It may happen that all farm produce is low in price, but whether or not political effort will raise the price is quite another question. It may happen that the farmers are not well represented in state legislatures and in Congress, but a sweeping movement to put more farmers into these bodies will end in disappointment unless there is at the same time a specific demand for a concrete program, and the program will seldom fit, at one and the same time, the wishes and needs of the farmers of the North and of the South, of wheat

growers and cattle growers, of milk producers and producers of citrus fruit. To call all of these groups farmers and to assume that their aims and their grievances are alike is as far from the truth as the assumption that because all churches are aiming in the same direction, they ought to unite. It soon develops that we can't even define a church organization, let alone unite them all. So with the laborers, there is much in the nature of painful history which shows the efforts of all laborers to unite. It seemed to great numbers of labor leaders that an all-inclusive organization would be vastly more effective than the union of separate crafts. The final judgment seems to be overwhelmingly on the other side. The success of farmers thus far achieved in the marketing field appears to be of a similar nature. The dairymen are marketing dairy products, but even these not as a whole. The producers of liquid milk market milk; the producers of cheese market cheese; and if butter is ever coöperatively marketed it unquestionably will be accomplished through the efforts of butter producers, not by a dairymens' association, much less a farmers' association of a wider character.

What is happening is logical and should prove permanent. The marketing work by farmers' organizations is developing along commodity lines, and the different groups are banding themselves together into a federation. Even though, in many instances, federation precedes and fosters commodity coöperation, the logic of the case is unaltered. For some years to come it would seem that the program is fairly clear, and that general farmer movements will confine their efforts to the fostering of specific lines of coöperation grouped around commodity marketing.

Minor Farmer Movements

Several organizations not given separate chapters below are worthy of mention. Some of them indeed are more successful than the larger ones, so far as achievement is concerned. However, on account of their small size and restricted areas the discussion of them will be brief.

The Gleaners.—The organization of the Gleaners began in Michigan in 1894. It is primarily a fraternal order with life insurance as one of its leading objects. Incidentally it makes emergency loans to members, but the amounts are small. As a marketing organization it has made important and substantial progress. The main plan is to conduct a clearing house, located at Detroit, at which information concerning the state of the market is constantly available. In selling farm produce the method of procedure is as follows: The farmer writes for prices and directions. He is advised, for instance, to ship hay to Buffalo rather than to Chicago. The shippers must arrange for carload shipments, where feasible, and consignment is made to agents or commission firms with which relations are maintained and from which fair treatment is therefore to be expected.

The organization deals not only in farm products but also in farm supplies. Locally a considerable number of elevators, warehouses, and stores are operated. It seems to be an example of success somewhat out of the usual order in that its operations cover a wide range, instead of being confined to a particular line. At the same time it must be noticed that it is effecting no fundamental reforms, but merely taking advantage of prevailing market conditions and getting somewhat more out of sales than would be possible through the more usual channels. When it is desired, the Gleaner society advances sixty per cent of the value of the produce at the time of shipment, the balance being paid after the sale is completed and expenses deducted. The membership of this society, about eighty thousand, is mainly in Michigan, with some members in about five or six other states not far distant.

The Equity Union.—The organization called the Equity Union is a branch of the old American Society of Equity, which started soon after the reorganization of the parent society in 1917. Its headquarters are in Illinois, and its main purpose is the promotion of coöperative effort.

The Farmers' Society of Equity.—This is the remnant of the original American Society of Equity. Its head-

quarters are at Indianapolis. The membership is small, and its relations to marketing are not very vital.

The National Farmers' Congress.—The occasion for the organization of this society is not altogether clear. It seems to have been the outgrowth of some fairs held in the South. The first meetings were held in 1870 and 1871, and the name National Farmers' Congress was brought into use about that time. The leading purpose has always been to look after the public side of agriculture. To this end the organization has promoted legislation favorable to agriculture, maintaining a legislative representative at Washington, or at least appointing a member who lives in that vicinity, to keep track of legislation and be present whenever occasion demands.

National Board of Farm Organizations.—This organization deserves more prominence than can be given it in a paragraph. It was the first serious attempt to federate the farmer organizations of the country. It comprises in its membership a large number of organizations, some of them of a general character, like the Farmers' Union; some of them marketing associations for handling such commodities as milk and grain. During the World War the National Board of Farm Organizations played a prominent part in representing the interest of the farmers at Washington, and is now undertaking the erection of a Temple of Agriculture in that city. Its relations with the American Farm Bureau Federation do not seem to be well defined, and there is danger of duplication of effort.

CHAPTER XVII

THE GRANGE

Antecedent Conditions.—There were reasons why the farmers of the period of readjustment following the Civil War were disposed to organize. These reasons were interwoven with the history of business in which they were engaged. Rarely, if ever, has such a period of expansion been known in connection with any business as that which took place in agriculture during the decades in which the Grange was founded and ran its first spectacular course. From 1860 to 1870 the population of the seven leading grain states increased forty-two per cent; from 1870 to 1880 it increased thirty-five per cent. In the twenty years the growth in absolute numbers in these states was over eight millions. During the second of these two decades there was added to the farm land of the United States an area equivalent to three times that of Missouri. Without doubt, this was the most rapid development of agricultural resources known up to that time. The Homestead Act of 1862 was responsible, in a great measure, for the expansion in farm area, making, as it did, the public domain substantially free in quantities of one hundred and sixty acres for each settler.

Increase in Grain Production.—During the twenty-year period from 1860 to 1880 the acreage of the leading cereals, corn, oats, and wheat for the whole country doubled. The per capita production of wheat in 1860 was 5.6 bushels; in 1880 it was 9.2 bushels. Mechanical devices of all sorts contributed to the result. The breaking plow was remodeled to fit the demands of the prairie, and, whereas it had taken an Ohio farmer and his family a life time to clear a farm, the prairies of Iowa could be turned into plowed fields at the rate of two acres a day, with no

more than one year between the breaking and the growing crop. The self-binder was also a prime factor. Invented in Wisconsin about 1869, it soon became a necessity in the wheat fields of the farther west. Men who had been able to raise only twenty acres of wheat, limited as they were by the exigencies of harvest, could now grow four or five times that amount, and they did it.

Transportation.—The railroads contributed an important part in this unprecedented grain supply. In single years there were built, after the Civil War, more miles of roads than existed altogether before the war. They pushed into the West. Farmers were as much excited over railroads as were the builders themselves. Enthusiastic meetings were held, counties and townships voted bonds to provide bonuses for railroad projects. Farmers subscribed money, even mortgaged their farms, believing that the first requisite to farm prosperity was transportation. Public subscription alone ran to $18,000,000 or $19,000,000 in single states. The amount of private subscription has never been ascertained. Hardly had these good things been obtained when they were seen to work out a different result from that anticipated. The farmer grew more grain. He could ship it to market. But he could not pay off the mortgage on his farm. The railroad charged what the farmer believed to be exorbitant rates for carrying produce to market, while prices were so low that grain was grown at a loss. This was the condition in the North.

Condition in the South.—In the South agricultural operations were paralyzed. Not only did the South bear the brunt of the war, but the freeing of the negroes and the breaking up of the plantation system meant that a new plan had to be devised before recovery could take place. It has been estimated that a fourth of the adult white male population was killed or disabled during the war, and this in itself is sufficient to account for the demoralized condition of agriculture. For the first few years an attempt was made to hire the freedmen, but the results were disappointing and the tenant system was developed.

President Johnson, wishing to do something to improve

conditions in the South, decided that the first need was for information, and accordingly he sent a man down there to investigate. This was a young farmer from Minnesota, Oliver Hudson Kelly, at that time employed in the Department of Agriculture. Mr. Kelly was a Boston Yankee who had gone to Minnesota to try farming. On account of hardships there, and at the same time on account of his prominence as a writer on agriculture, he was given an appointment in the Department of Agriculture which put him in line for the work he was destined later to do in connection with the Grange.

Going to the South in 1866, Mr. Kelly found the farmers of that section living in isolation and greatly discouraged. Moreover, they were not disposed to take kindly to a representative from the North, especially as he had no attractive program to present. Amidst these discouragements Mr. Kelly's membership in the Masonic order stood him in good stead, the fraternal bond bridging the gulf for individuals which had been fixed sectionally by years of misunderstanding. Little was accomplished as a direct outcome of Mr. Kelly's trip. He made a report to the President, but there is nothing to show that it became the basis of action on the part of the government. It had, however, a far-reaching influence in an unlooked-for direction. It gave Mr. Kelly the idea and the inspiration which led to the founding of the first great organization of farmers—the Grange.

Perfecting the Plan of Organization.—For nearly two years after his return from the South Mr. Kelly remained in the government service at Washington and spent his spare time in planning the new organization. It was his deep conviction that the gravest need among farmers was for some means of bringing them together, getting them acquainted, and creating among them a feeling of fellowship and comradeship. In other words, it was necessary to create among them a class consciousness, coupled with a spirit of mutual helpfulness. Hence his first plan was for a farmers' fraternal order. Great pains were taken with the ritual, since in this the author had unlimited faith.

"In what," he asks, "does the permanency of associations which have existed through the ages consist?" He replies, "We can find but one satisfactory answer to this question: Ritual, secrecy, fraternity, and mutual benefits. If, then, these are the efficient elements of extension, permanency, and success, why not employ them to disseminate useful knowledge, and to develop a more general and effective organization of communities engaged in rural pursuits?"

Program.—It was Mr. Kelly's purpose to provide for the social and educational needs of the community. Women, due to a suggestion of Mr. Kelly's niece, were to be included in the membership; boys of eighteen and girls of sixteen years of age were to be admitted. The program of the Grange was comprehensive, though somewhat vague. In very general terms it declared itself ready to work for general improvement of husbandry, the increase in happiness, wealth, and prosperity. More specifically, it declared itself in favor of diversification of crops, coöperation in buying and selling, and opposed to the credit system of doing business. These latter counts were not included in the program at first. To this end the order should provide meetings at which there should be essays, lectures, and discussions. A study of the facts of field, orchard, and garden was to be of primary importance. In other words, fellowship and education were the main parts of the foundation of the order. To Mr. Kelly's mind, at that time, it was desirable to introduce business coöperation into the organization only in a local and minor way, if at all. Even this was not approved by his associates at the beginning, and, as a result, the earliest granges organized had in their program nothing pertaining to business cooperation.

Organization.—For two years Mr. Kelly and six associates, all but one of whom were government employees, worked on the ritual. The organization was to consist of local societies or lodges, called Subordinate Granges; above the locals were State Granges (after 1876 there were also county organizations) and above the state organizations,

the National Grange. The official name of the complete order was the "Patrons of Husbandry." The founders organized a sort of trial Grange, the "National Grange," in Washington, December 4, 1867. The real beginning, so far as farmers were concerned, was made when Mr. Kelly left Washington, April, 1868, with $2.50 in money, to begin the actual organization of the agricultural people of the country. After an attempt to organize a grange at Harrisburg, Pennsylvania, Mr. Kelly went to Fredonia, New York, and there started "the first regularly organized grange where every member paid his fee." Arriving in Minnesota, Mr. Kelly began an active campaign of organization, and at the end of the year reported that ten local granges, mostly in Minnesota, had been started. Mr. Kelly was a good advertiser. Early in the year a circular letter had been issued over his name by the National Grange. In this letter it was stated that the order was founded "by a number of distinguished agriculturists of various states of the Union, at Washington, in December, 1867, and since then has met most encouraging success, giving assurance that it will soon become one of the most useful and powerful organizations in the United States." This was optimistic, to say the least. However, the propheey was not altogether wrong. During 1869, thirty-nine granges were organized, making fifty in all, and of the whole number forty were in Minnesota. Progress was not rapid for several years. In 1870 but thirty-eight subordinate granges were organized. In 1871 one hundred and thirty. These were distributed over thirteen states, two of which, Minnesota and Iowa, had state organizations. From the beginning of the year 1872 the growth of the Grange was rapid, and from 1873 to 1875 spectacular. Within these few years it spread to every state in the Union except Rhode Island, was started in Canada, and was, apparently, about to be introduced into several European countries. In Iowa there were two thousand local granges, in Missouri about the same number. The total membership was variously estimated at from five hundred thousand to one million. The former figure was no doubt

much nearer the truth. At all events, it was by far the greatest organization among farmers which the world had at that time seen; moreover, the growth was unprecedented in rapidity.

Farmers' Movement Had Already Begun.—The Grange did not create the "farmers' movement." The movement was already on. It was manifesting itself in the organization and activities of clubs which were to be found throughout the country. In fact, the presence of the club very often proved to be a retarding influence in the way of the Grange. Several "agricultural congresses" were held, national in scope. One of these convened in Alabama in 1871, another in St. Louis in 1872. In Illinois a convention of farmers had met in 1869; other conventions were held in 1872 and 1873. These were attended largely by members of farmers' clubs. The objects were set forth in a series of resolutions which centered about coöperation, with special reference to the control of monopoly. In the third of this series of conventions the Patrons of Husbandry, as well as the clubs, were represented. In 1873 a great farmers' convention was held at Bloomington, and a political movement against monopolies was definitely launched. Thus the Grange found the field occupied to a considerable extent by other forms of organization. In fact, so far as Illinois was concerned, the Grange hardly gained a commanding position among the farmers in their famous fight to control the state judiciary. In nearly all other leading agricultural states the Grange either absorbed or overshadowed other agricultural organizations.

Economic Activities.—Although founded for social and educational purposes, a farmers' movement of the early '70's could not ignore the economic affairs of the time. The Grange was soon so much involved in economic matters as almost to lose sight of the objects of its founders. In his annual address at the St. Louis meeting in 1874—probably the most notable meeting ever held by the Grange—the Master of the National Grange said, "When the first subordinate granges were organized, one of the first and most proper subjects for discussion was, how to make two

blades of grass grow where one grew before. During these discussions it was soon evident that how to sell crops was fully as knotty a question as how to grow them. It came to the conviction of members that they received 60 cents a bushel for wheat, while the man who ate it paid $1.20 for it. They were selling corn at 20 cents per bushel, while the consumer was paying 80 cents per bushel.'' The solution of this problem soon became a leading idea of the Order. He went on to say that millions of dollars had already been saved by local and state granges, making it plain that buying and selling had been introduced early into the operations of the organization. At this meeting it was declared: ''We propose meeting together, talking together, working together, buying together, selling together.'' To this end, that is, the latter two of these purposes, it was to be a main object to bring producers and consumers together and to eliminate surplus middlemen. Although it was not a prime object of the Grange to limit production in order to control prices, this convention declared in favor of reducing the supply of cotton in the interest of remunerative prices. Little or nothing was accomplished in this respect.

Farmers Insist on Undertaking Business.—In view of the fact that many farmers' clubs were already engaged in coöperative buying and selling, it was natural that the Grange should, at an early date, attempt the same thing. Not only was this the case, but out in Minnesota, where the first state Grange was organized, there was a demand made on the National Grange for authority to appoint a state business agent before there was in any real sense a National Grange. The National Grange was slow to become responsible for such an innovation. Mr. Kelly told the Minnesota Grange to go ahead, and that the national organization would consider it a local affair. The threat was made that in case they were not allowed to go ahead as a branch of the National Grange they would withdraw and run as they pleased. Mr. Kelly was in favor of letting them try the business agency. It would be, in his opinion, excellent advertising, and in case of success it could be claimed as a

victory, while in case of failure the national order could insist that the effort had been only a local matter. He was convinced, moreover, that something ought to be done to protect the farmers from the impositions of middlemen. The Minnesota State Grange appointed an agent and went ahead.

Grange Attempts to Control Markets.—Business coöperation was not a part of Mr. Kelly's first plan, but he was keen to recognize the thoughts which were uppermost in the farmers' minds. Long before he was ready, or even before he felt authorized, to advocate coöperation among the farmers he wrote to his Washington associates, recommending in vigorous terms that the Grange align itself with the problems with which the farmer was concerned. From the field he was met with the question, What pecuniary benefits are we to gain by supporting the organization? and he proposed to answer by saying, "Each Grange is of itself a Board of Trade, and by the system of communication through Subordinate, State, and National, produce can be marketed independent of the Chamber of Commerce, and Millers and Wool Growers' Associations, which are organized to control the markets." This was in 1868, and showed that the founder of the order was already convinced that material prosperity must be made an important part of the foundation, if not the main corner stone, of the organization.

In 1870 Mr. Kelly was sanguine enough to suggest that with fifty subordinate granges in Illinois a large portion of the wheat harvest could be controlled by farmers, and he made a visit to Chicago with that end in view. It was his purpose to find a market for wheat without its being "subjected to the gambling operations of the dealers."

The first coöperative effort among granges in which the sanction and aid of the National Grange was granted, occurred in 1871 in the form of printed circulars, in which a certain company offered to sell seeds to Grange members at wholesale prices. The National Grange distributed the circulars, although the master of the order remonstrated against doing so. A few days after mailing these circulars

the National Grange sent out a circular of its own, recommending just such coöperation to all members, thus making business an acknowledged part of their operations.

The main methods of carrying on the economic activities were: (1) by coöperative buying of household and farm supplies from some wholesale house; (2) by purchase, and occasionally sale, through agents appointed by the Grange; (3) by special bargains for the manufacture of machinery; (4) by undertaking to operate manufacturing plants; (5) by organizing stores; (6) by organizing shipping associations; (7) by the organization of coöperative insurance companies; (8) by reorganizing farm credit. Not all of these require discussion here.

Coöperative Buying from Wholesale Houses.—In buying household and farm supplies a vital issue was reached at once—the payment of cash. The pioneer farmer had been poor; he was still poor, and at times he found it difficult to pay cash for goods purchased. The Grange, from the beginning, undertook to teach him that store credit was uneconomical, and that, since the cash sooner or later must be forthcoming, it was better to get on a cash basis if possible. Many mercantile companies issued lists of goods and prices to be distributed among Grangers. By this method much business was done, but it had to be on a cash basis. This the farmers were not, as a class, ready to adopt. The whole business undertaking of the Grange was continually hampered by the inability or reluctance of the farmer to pay for commodities when they were delivered. Another serious drawback to the method of purchasing from companies making special rates to Granges was that the secrets were frequently divulged, and hence the system broke down. In spite of these drawbacks, a great deal of business was done. Montgomery Ward & Company was organized as a house ready especially for farm trade, and from it many Grangers made purchases. During the early years of the order it was the usual thing for members to mass their purchases and so get unbroken packages, such as barrels of sugar, sacks of coffee, and boxes of currants. These goods were taken to the place of

meeting and distributed to the members. Many families continued to buy in this manner even after the Grange in their neighborhood had been disbanded.

The State Purchasing Agent.—Probably the most noteworthy effort at buying was by means of the state purchasing agent who dealt, on the one hand, with an agent of the subordinate grange, or in some cases with a county purchasing agent, and, on the other hand, with the manufacturer or mercantile establishment. The plan was an elaborate one, and to a considerable extent it was realized. Above these local and state agents the National Grange was to have agents dealing with manufacturers of other countries.

The state agent received orders from local granges and bargained as best he could with manufacturers and wholesalers for the goods. This method of bargaining had its advantages and its disadvantages. It was advantageous in that it placed orders in large lots, as carloads, and it was in most cases accompanied by the cash. Sometimes the orders were shipped in carload lots to the business agent at his headquarters, usually the principal railroad center of the state. The agent then would divide the goods and ship to the local-grange agent, or even directly to the farmer. Another plan was for the manufacturer or wholesaler to ship directly to the patron, in this way getting the advantage of a bulk sale, although obliged to ship in small lots. The disadvantageous side of this kind of dealing hinged upon the relation of the manufacturer or wholesaler to the retail trade. A business relationship necessarily existed between them. To deal directly with the consumer meant that the retail merchant must be left out in the cold. There was the greater danger that the retailer would establish relations with other wholesalers, after which, in case the direct trading should not prove to be a permanent arrangement, the wholesaler who had favored the farmers would be the one left out of the business connections. Business organizations went so far as to pass resolutions urging all members to refuse to sell to farmers' clubs or granges any article at less than retail price, but to permit local agents

handling their goods to make reductions for cash payments. Nevertheless, the Grange organization was strong enough to bring many manufacturers and wholesale merchants to terms.

Manufacturing on Grange Orders.—Quite often the state agent bargained with a manufacturer to make a certain number of articles, such as farm implements, to be taken during the season at a price agreed upon. This was almost always at a figure greatly below the regular retail price. Probably the state-agent plan was the simplest and most direct, aside from mail orders, that it was possible to devise for the purchase of goods without the intervention of the retail merchant. It gave great promise, and in many instances resulted in important savings. For example, the Nebraska agent claimed to have saved $60,000 for members in one year, besides an equal sum due to reduced prices charged by retail merchants. In the four states of New Jersey, Pennsylvania, Indiana, and Ohio, it was estimated that the state agents were doing a business aggregating about $2,000,000 a year each at a reduction of from 15 to 30 per cent from ordinary prices. The Wisconsin agent reported a business of from $200 to $500 a day. The Iowa State Grange in 1874 reported savings, by direct and coöperative dealings, of about two thirds of a million dollars. It was stoutly claimed that reductions in prices were frequently as great as 50 per cent, while the average was seldom estimated at less than 30 per cent. On sewing machines, according to the estimates, savings of from 40 to 60 per cent were effected.

Where satisfactory arrangements could not otherwise be made with manufacturers for the purchase of implements, the state Granges in some instances bargained for a given number which they agreed to take at a stipulated price. Here arose a difficulty: The farmers would not bind themselves to take the machines until they had an exact quotation of prices, while the manufacturer would not set a price until he knew how many would be taken. The Iowa State Grange complained of this trouble, and in 1874 and

1875 got into an embarrassing position on account of machines left on its hands unsold. The National Grange reported unfavorably on the purchasing-agent system in 1875 and made suggestions for its improvement. In 1877 it recommended that they be discontinued since "there have been more failures than successes."

Manufacturing by Farmers' Companies.—Not meeting with the success desired through the medium of the purchasing agent, the Grange resolved to go a step further and enter the manufacturing world. The initiative was taken by state Granges. At first, contracts were made with manufacturers for a certain number of machines of a given type. This plan put the responsibility of selling the machines on the Grange. It was not a successful plan. In several states the Grange undertook to manufacture implements. No notable example of success in this enterprise can be found. Nebraska manufactured headers and cultivators and had to borrow money from the National Grange to provide for carrying a considerable stock over to another year. The Michigan State Grange voted, in 1875, to go into the manufacturing business. The National Grange at one time owned the right to manufacture a considerable number of implements, and while it did not undertake to establish factories, it could, and did, delegate the use of its patent rights to state Granges. The Iowa State Grange undertook the manufacture of Werner harvesters, but, notwithstanding the fact that it sold them at less than half the price asked for similar machines, sales were slow and difficult, and the Grange was left with a considerable number of unsold machines on its hands. The experience of the Iowa Grange in this venture illustrates the difficulty encountered by an organization with little capital, and especially with but a slight hold on its members, going into a business of this kind. They were making a twine binder, a machine not at that time well standardized. They put the machines out through inexperienced agents and sold them to farmers unfamiliar with them. The result was that many machines gave little satisfaction. The independent manufacturers were bending all their energies

toward overcoming these initial difficulties. The farmers' organization had neither money to spend nor authority to make such expenditures. A factory for making various agricultural implements was built at Muscatine, Iowa, by the Grange. The plan of manufacturing for themselves, whatever may have been its possibilities for success, was almost a complete failure.

Stores.—The plan of buying supplies directly was easily expanded into that of operating a store, for manifestly no one can well buy all goods needed from an out-of-town dealer. Neither can an agent sell goods easily without a stock on hand. The Grange leaders had made a pretty careful study of coöperative distribution as practiced in England, and while somewhat slow to recommend that it be tried on a large scale in this country, they did in one way and another disseminate the information. The National Grange had, even before the study of the English experience was made, put out a pamphlet giving an outline of a method of organizing a coöperative distributing company. Early in the period of Grange development stores were organized, and almost at once objection was raised on the ground that they were not strictly coöperative. The National Grange understood perfectly well the difference between a joint-stock profit-making company and one run by a group of people for the mutual gain of the whole group on a basis of business done through the company. It was not easy for the farmers to follow the latter plan on account of the laws of the states which provided for no such company, but, on the contrary, required, for the most part, that voting and dividend payments should be on the basis of stock ownership instead of "one man—one vote," and that dividends should be in the form of rebates to customers on the basis of business transactions. The National Grange, moreover, advised strongly the employment of none but competent managers for coöperative undertakings and the giving of little or no credit. Here were two stumblingblocks. The farmers were not well informed as to the value of business ability and were disposed to think that double farm wages, for instance, was pretty good pay

for a man placed in charge of a country store. As a matter of fact, that was not enough to secure the services of a competent man, and, in consequence, incompetent men were all too often employed. This meant bad bookkeeping, and, unfortunately, usually a cheap stock of goods, resulting in loss of the support of the very customers who should have been loyal.

The Grange stores lost in some cases by succeeding; for by compelling the local merchants to come down to reasonable prices, they lost their hold on their own people, who could then see little reason for buying at the Grange store. They lost again by giving credit, for it was a very difficult matter to pull the farmer out of the credit rut, and prices set on the basis of a cash payment were not adequate to stand the strain of a credit modification. Still others lost by making profits and became an ordinary joint-stock company with perhaps a few farmers interested in the ownership. Many failed because they were attempted without adequate capital on which to run. The usual plan of organization was to issue shares of stock divided into small denominations, as from $5 to $15. The business was done, or at least such was the intention, on a cash basis. Goods were sold at a small advance, as 8 per cent, over the whole cost. Those companies which followed the advice of the National Grange paid but a nominal dividend to capital, allowed each stockholder but one vote, and paid a rebate to customers in proportion to business done.

No census was ever taken of the coöperative stores, and it is impossible to say how many there were. Vague statements were made to the effect that they were "numerous," or that there were "hundreds, possibly thousands," of them. With the general decline of the Grange, the stores rapidly disappeared, although a few, mainly in the eastern and southern parts of the country, have persisted even down to the present time. The experience of the Grange does not prove that there is anything impossible or illogical about coöperative storekeeping; it simply proves that it cannot be done by inexperienced people without great pa-

tience, determination, and even fortitude. Few of the Granges were willing to pay this price for success.

Shipping Associations.—Closely akin to the stores were the organizations for shipping grain and live stock. The National Grange made arrangements with certain commission houses for the handling of farmers' grain. These houses were required to give bonds to the amount of $100,000 each, guaranteeing fair dealing. Often they sold the grain in the cars in which it was shipped, thus saving elevator charges. The arrangement with the commission houses was supposedly necessary on account of the dissatisfaction of farmers who had previously consigned grain to commission firms. It was the belief that the farmers could effect important savings by handling their own grain locally, thus cutting out the buyer's share.

Companies were organized at many western points for handling the farmers' business. It was reported that two thirds of the grain elevators of Iowa were in the hands of farmers. This was a great error. The Iowa Grange at its annual meeting in 1874 reported 53 elevators in farmers' hands. The editor of one of the leading Grange papers estimated the number of farmer-owned elevators for the whole country at 20. This estimate was undoubtedly too low, but evidence is wanting to show that the number during all these years was large. At all events, the farmers owned a very small proportion of the elevators of the Northwest, although a sufficient number were so owned as to constitute an important episode in the Grange movement. Where a company was organized it had almost an assured patronage, and where the membership of the company was large it meant the major part of the business for the town. At Waterloo, Iowa, the farmer's elevator drove independent elevator men out of business, and the same thing happened at other points.

Some Nebraska Grange organizations shipped wheat to Baltimore and claimed to get from 25 to 30 cents per bushel more for it than the dealers would have paid. Dur-

ing these years corn was low in price, and with the prevailing freight rates it was often a question as to whether it was worth shipping. Five cars of excellent corn were shipped from Iowa to New York City which, after the freight and other charges were paid, brought the shipper but 8 cents a bushel. There was a general belief among the Grange shippers that through their arrangements very important additions were made to these low prices. One estimate was that the coöperative method of handling resulted in an advance of 6 cents per bushel on corn. Manifestly this was a hard matter on which to give exact figures. The greater share of the coöperative shipping of grain during these years was done by locally organized groups, and in consequence no records are available to show the extent of such operations.

The most extensive shipping by the Grange was that of wheat from California. Ocean rates were much lower than rail rates. Moreover, much wheat was being exported, and the surplus on the Pacific Coast was in as favorable a position for going to England, as for making its way to our own mills. This situation was well understood by the leaders of the Grange, who made a deal with a commission firm whereby the latter was to act as the agent of the Grange, doing the work on a commission basis and paying for the wheat as payment was received from the European consignee. Seventeen boat loads were thus dispatched, and matters were going well when the company failed. The affairs were settled up as best they could be, and the farmers were brought to a realization that they, being unincorporated, were, after all, in poor shape for doing business. They incorporated the State Grange immediately after this trouble. To a very limited extent live stock was shipped coöperatively, and sometimes very extravagant claims were made as to the advantages gained. A Grange in Nebraska sent some hogs to market in 1873, and reported a price of $3.63 per hundred above shipping expenses, in contrast with $3.00 which was offered by the independent shipper. A Grange in Illinois reported a saving from coöperative shipping amounting to from 25 to 50

cents per hundredweight. The Ohio State Grange employed some men who apparently acted as live-stock commission men at Cincinnati. Instances such as these may, of course, have been substantially as reported, but that they were representative of the usual experience, or that they were achievements which might frequently be anticipated, is not to be taken for granted. At all events, not many groups of farmers were induced to make the experiment, and of those who did make it not many continued the practice for any number of years.

At one time much was hoped for in the way of shipping directly from farmer to consumer, especially where the consumer was another farmer. A few such transactions occurred. An Iowa Grange sent some flour to a mechanics' society in New York City, the farmers getting more than the wholesale price, and the society paying a dollar less than the eastern retail price. Another group of Iowa farmers shipped flour and bacon to some South Carolina planters to their mutual advantage. The Iowa farmers talked of establishing a coöperative bacon factory, though nothing came of it.

Substantial progress was made in the marketing of tobacco, cotton, and wool. A considerable number of wool and tobacco warehouses were built, in which farmers stored their products, and from which these products were sold. In Georgia a company was chartered for the direct shipment of cotton to Europe. Shipping by the Granges directly cannot be, for these early years, counted a success. It was attempted under serious difficulties. It was done many times by unorganized groups which could not be held together in the event of any discouraging experiences. Out of it, however, a large number of individual farmers learned to ship produce on their own account and continued to do so.

CHAPTER XVIII

THE GRANGE (*Continued*)

Political Activities

Railroad Control.—The constitution of the Grange forbade the discussion at its meetings of either religion or politics. By politics was meant partisan questions, since there were no restrictions intended on questions of an incipient political nature. For the most part, the political issues which the Grange discussed were of an economic nature. Prominent among these was the railway question, and during those years railway was another name for monopoly. So prominent was the subject of monopoly in the farmers' movement of the '70's that the three most important writers on the history of the Grange discussed the monopoly aspect of railroading even more than the activities of the Grange itself. The farmers' movement was to a great degree an antimonopoly movement. On various occasions it was proposed that farmers and laborers join hands in order to present a united front to organized capital, which, it was believed, had a monopolistic advantage in the material affairs of the world.

There was a widespread feeling that the railroads had been given an undue amount of public aid in the form of land grants; in the loan of public credit, mainly to the Union Pacific; and in bonuses paid by local units, such as cities, townships, and counties. The columns of the agricultural press fairly teemed with editorials and contributed articles on such topics as "watered stock," "freight rates," and "railroad control of the legislature."

The Granges soon became deeply involved in the controversy. It was their belief that the lack of prosperity in the farming business was due to the arbitrary and exorbitant freight rates charged for transporting the produce. The

farmers were deeply disappointed in the railroads. They had hoped, had indeed expected, that with the advent of transportation facilities farming would become a profitable business. Now with railroads in abundance farmers were as poor as ever. The thing they had not appreciated was that there would be competition among farmers in the markets of the world. What stared farmers in the face was freight rates equal to four fifths of the value of corn in the eastern cities. As they put it many times, "the railroad could for a toll of four bushels of corn take the fifth bushel to market." Then, too, the railroads did not treat all customers alike. They were having troubles of their own. Competition was keen and, consequently, the roads made low rates from points where two or more roads met, and charged more at intervening points. Again, they had no published tariff schedules, and the payment for a given service was a matter of bargaining, in which some customers were skillful and some were not. The railroads were owned mostly by eastern people who clamored for dividends; they did not have the farmers' point of view; from their own point of view the roads were making too little.

The battle between the railroads and the farmers was on before the Grangers appeared on the field. As early as 1870 the Illinois constitutional convention wrote into the constitution of the state a clause providing that the state might not grant charters to corporations by special enactment, that reports must be made to state authorities, and that unjust discriminations in freight rates should be punishable by fine, or even by forfeiture of property and franchise. The following year, 1871, the legislature passed the first "long and short haul" act, and fixed maximum passenger rates on the basis of gross earnings per mile of road. A case soon came before the courts. The lower court upheld the provision, but the supreme court of the state discovered the word "unjust" as a limiting factor and reversed the decision on the ground that the discrimination in question was not unjust.

At the next meeting of the legislature a law similar to

that of 1871 was passed. This act put into the hands of the state Railroad and Warehouse Commissioners the duty of prescribing maximum rates for freight and passenger service. This law was eventually upheld by the United States Supreme Court, and the Granger contention that the creator of the railroad franchise was competent to control the company created was won. That the railroads were common carriers was established. The action of the railroads with respect to interstate commerce led the Grangers to demand that Congress take charge of interstate commerce. It is believed that the Grangers' claim for the credit of forcing the state and national governments to assume authority over the railroads in respect to charges is good. They certainly played a conspicuous part in the struggle.

The legislature of Illinois in 1873 was, and still is, counted as one of the "Granger legislatures," although it antedated the period of important Grange influence. For a few years after this, from 1873 to 1876, several states of the Northwest had Granger legislatures. As a result, the railroads received particular attention. Railway commissions were created in many other states and, in general, the fixing of charges was acted upon in one way or another. The most notable of all laws was passed in Wisconsin in 1874. Mr. Potter, for whom the law was named, was a man little versed in matters of transportation, but he felt bound, nevertheless, to carry out the wishes of his constituents. He received suggestions as to the proposed law, and formulated a drastic measure to which the railroad lobbyists made little or no objection, thinking, no doubt, that the bill was too extreme to pass the legislature. To their surprise, it not only passed the legislature, but passed the senate with only seven dissenting votes. The law provided that freight rates should be, for the most part, reduced to the level of June 1, 1873, and also that a railroad commission of three members be appointed. This commission was given the power to make reclassifications of freight, and to reduce rates if it should find them too high.

Passenger rates were lowered to three, three and a half, and four cents a mile.

The two leading roads of the state refused to comply with the law, claiming that it was unreasonable and unconstitutional. The case was soon brought before the state supreme court, and a decision was rendered to the effect that the legislative body was competent to fix railway rates, thus upholding the law. Two years later the United States Supreme Court affirmed the decision.

In the meantime the law had been repealed. It was repealed early in the legislative session of 1876 by a vote as decisive as that by which it had been passed two years before. With the repeal of the law the commission was reduced from three members to one, and the power to regulate rates was taken away. The roads were permitted to increase their freight rates, not to an unlimited degree, but probably as much as they wished. Passenger rates were not increased.

It was a clear case of the pendulum swinging too far. It came back with a strong sweep, and Wisconsin was left with very little to show for all the effort at regulation. There was no effective railroad commission established in the state until a quarter of a century later. In Iowa, as another example, attempts had been made before the days of the Grange to pass laws regulating railroad charges. These efforts had not produced results immediately, but they undoubtedly were factors contributing to the growth of the Grange. In 1874 the Iowa legislature was dominated by Grangers. A law was passed classifying the railroads according to gross earnings and prescribing maximum rates for both passenger and freight traffic. The railroads assumed to believe that the laws were unconstitutional, but the United States circuit court, and later, 1876, the United States Supreme Court, as in the Wisconsin case, declared the law constitutional. This established finally the right of the state to regulate public service corporations. However, it did not settle the question of fairness as between the particular law and the facts of railroading. The legislature

of 1878 repealed the law of 1874 so far as it related to freight rates, retained the sections on passenger rates, and provided for a railway commission, giving it, however, little authority. Thus the organized efforts of the farmers had won the case respecting the right of the state to regulate railway rates, but failed almost entirely in their immediate regulation.

Controlling Elections.—The one conspicuous instance in which the farmers, and to a great extent this means the Grangers, figured in controlling elections was in the case of a judge for the supreme bench of Illinois in 1873. Judge Lawrence had given the opinion declaring the railroad law of 1871 unconstitutional. He was nominated for reëlection in 1873. The State Grange had exonerated Lawrence in a set of resolutions passed some months before the election, but, according to the editor of the *Western Rural,* the farmers felt slighted because the members of the bar in Lawrence's district had presumed to nominate him without consulting them. Nevertheless, they had no notion of nominating a rival candidate until Judge Lawrence, in accepting his nomination, "expressed himself in contemptuous terms about the power of the people." This led the farmers to call a convention and nominate another man, A. H. Craig, and they succeeded in electing him. The farmers got a great deal of notoriety out of this, and were accused of meddling in politics, of packing the bench with men who would decide as they wished. It seemed rather that they were determined to carry through the antimonopoly fight.

Other Political Demands.—The Granges of various states resolved, on different occasions, against the salaries paid to state and national officers. They compared the salaries of these officers with the small wages paid to farmers and mechanics, and alluded to attempts made on the part of public officials to increase their own salaries as "salary grabs." They demanded in several states that herd laws be passed; that dogs be taxed; that forest trees be preserved, and that more trees be planted; they opposed the extension of patents; they favored woman suffrage and more efficient temperance legislation.

In many states they were decidedly in favor of monetary reform. This was the time, it will be remembered, of agitation over the resumption of specie payments. As a rule, the Grange was not in favor of the movement toward a single gold standard and redeemable greenbacks. Several state Granges passed resolutions favoring the free coinage of silver. Others were unfriendly to the national banks, which, as they thought, had undue privileges in the matter of bank currency. On the perennial tariff issue several state Granges held discussions. When their sentiments were expressed they were invariably against high protection, but not with sufficient unanimity to warrant the organization in taking a positive stand. It was recognized that in different sections of the country opinions and views differed, and for that reason, if for no other, it would be hazardous to pass resolutions.

Partisan Politics.—On the whole, the Grange adhered very creditably to its policy of taking no part in partisan politics. They elected, it is true, a large number of their members to state legislatures, but this was done within the old parties and rarely by a candidate put up by farmers as a third-party representative.

The Grange and the United States Department of Agriculture.—The Grange had a clear vision of a Department of Agriculture, and asked Congress to put a secretary, who should be a Cabinet member, in charge of the department. They also demanded that the government gather crop reports and publish them for the benefit of those interested. This task the Grange undertook itself, but the work involved was too heavy and soon was abandoned. That the Department of Agriculture was to be of practical use was a primary consideration of the Grange. One attempt to bring this about took the form of a demand that Congress purchase and distribute farm and garden seeds. Being, as was said, "the spoiled child of politics," the Grange could, for a time, get from Congress almost anything it chose to ask. The free distribution of seeds was granted, and although the Grange has many times tried to stop it, the opportunity afforded the Congressmen to send their fac-

simile autographs into so many homes of constituents is one which they have not been persuaded to forego. Another hobby of the Grange was agricultural literature, and they importuned Congress to make an appropriation of funds for the dissemination of such. Congress responded and set aside for the purpose $500,000. The real drawback in the case was a dearth of literature to send.

The Decline of the Grange.—Hardly less spectacular than the rise of the Grange was its decline. Frequently this decline is referred to as the "downfall" or even the "death" of the organization. However, the Grange by no means died, although for some fifteen years it was so inconspicuous that it is doubtful whether the majority of the farmers of the country knew that it still existed.

The Cause of the Decline.—The question is often asked as to why the Grange suffered such a relapse. The answer is not to be given in a word. There was a series of reasons. To begin with, it had grown too fast. To take on board a million new recruits within a period of three or four years would undoubtedly strain the moorings of any existing fraternal or social order, but to grow from no members to that number in such a length of time is a more hazardous experience. There were no old and tried members, there was no history, and there were no precedents. That there was energy and enthusiasm no one can doubt; that this energy and enthusiasm was used to little purpose is also beyond doubt. Serious mistakes were made, and the reaction from these was in many cases more than the organization was able to stand.

Attempted Too Much.—The new members expected too much. The play had been overbilled in the advance advertising. The promise of the complete organization of farmers; the hope of a saving of fifty per cent in purchases, and of a gain of from ten to twenty-five per cent on sales; the firm resistance that was to be offered to monopolies—all these were attractive, but not all could be realized. When big reductions in the cost of supplies were effected the victory was too easily beneficial to all without respect to membership in the Grange. Then, after prices had once

been cut in two, it could not be done again. Those who joined later were unable to see wherein they had profited. Moreover, the money side of the movement was magnified until other phases seemed by comparison almost insignificant. Hence, when the money was not forthcoming, there was no obvious reason why the Grange should continue. Of no small significance was the fact that during the hard times just following the panic of 1873, the Grange made its greatest growth. With the return of prosperity the incentive to join was much weakened. As in the case of every movement promising reform, a great many radical men rushed into the Grange. After the end sought was accomplished, such men were ready for something else, and were found in subsequent reform movements.

Such was the decrease in Grange membership that the dues to the National Grange which were about $43,000 in 1875 fell to $6,000 per annum within five years. The greatest decrease in granges was in the section of the country in which they had been the most numerous and the most active, that is to say, in the states of the upper Mississippi Valley. Farther to the east, where the organization had been less radical on the antimonopoly question, and less involved in business ventures, the decrease was not very great; from Michigan to New England there has been throughout the period of nearly fifty years a membership of creditable size.

THE GRANGE OF RECENT YEARS

After a period of quiescence lasting until about 1890, the Grange took on a new lease of life. The growth after that date has been substantial but not spectacular, and has been confined mainly to the states from, and including, Michigan to the east. Aside from this territory, a considerable revival has occurred on the Pacific Coast, while in its old stronghold of the Mississippi Valley the numbers are still insignificant, except in a very few states, for example, Kansas which has a membership of thirty thousand. There are at present as many members of the Grange in the United States as there ever were, the number being about

seven hundred thousand of which more than one fourth are in the two states of New York and Pennsylvania, and half of the membership is found in the Middle Atlantic and New England states. State organizations are maintained in about forty states.

Character of the Modern Grange.—Curiously enough, the Grange has assumed the form given it by its founders, returning, as it were, to its first love. Its most prominent features are now social and educational. It is the literary society, the debating club, the reading circle of the community. It maintains libraries and conducts lecture courses. It is the social improvement center.

Political Strength.—It has, however, as the years have passed, continued its activity in political matters and has advocated a long list of commendable measures. Among these may be mentioned: (1) the postal savings bank, (2) the parcel post, (3) the rural free delivery of mail, (4) the oleomargarine law, (5) pure food laws, (6) rural credit laws. The Grange deserves the credit of being the first to advocate several of these. The method followed by the Grange in giving expression to its political preferences is simple and effective. The state and national organizations appoint committees whose duty it is to keep in close touch with proposed legislation. Where an expression of opinion is wanted from the rank and file of the membership, copies of the bills are procured, or a statement of the case by some other means is made, and forwarded to the secretaries of the local granges. At the locals are legislative committees to which the matter is referred, and at subsequent meetings of the organizations reports are made. Action of some sort is taken, provided there is sufficient interest manifested, and the results of such action are reported to the committee from which the request came. In several states the attitude of the Grange is ascertained on all subjects of legislation in which the agricultural interests are involved. While not taking sides with either of the two great political parties, the Grange has at times held the balance of power by assuming the rôle of the independent voter. In Pennsylvania, on several occasions, the Grangers have turned their

strength to the party, otherwise in the minority, in order to defeat an objectionable machine man for the office.

During the past few years, beginning in 1917, the National Grange has enlarged upon the legislative-committee idea and maintained a Grange representative in Washington, D. C., permanently. It is the duty of this representative to use his influence with Congress and to keep the Grange informed on legislative matters.

Where the Grange is really strong, as in New York State, it has very much to say about all matters pertaining to agriculture. It is not too much to say that no legislature would undertake the passage of a law affecting agriculture vitally without first finding out how the Grange stood on the question. In fact, it would not be an easy matter to do so since there are always Granger members in the legislature. The respect in which the Grange is held by city people in New York State shows the possibilities of the farmer class in making itself felt in political matters. It is done through effective organization, and can never be done without organization.

Economic Activities.—In economic undertakings the Grange, though modest, indeed, as compared with the projects of forty years ago, is doing a creditable amount of work. A few stores are maintained, but in many more instances purchases and sales of produce and supplies are carried on. This is done through a committee, the transactions being for the most part confined to wholesale purchases. In not a few cases the granges do the buying and selling of the bulk of the products and supplies of their communities. They have, in many localities, organized coöperative telephone companies.

State Exchanges.—Some of the most notable instances of economic operations through Grange influence are to be found in New York, Pennsylvania, and Washington. In New York a state exchange is operated, which in 1919 did a business of over half a million dollars. The most of the operations were connected with the purchase of feed, fertilizer, twine, seeds, and similar commodities. These were bought in carload lots and sold to the members at cost.

Much difficulty was experienced with the wholesalers on account of their relations to the retail trade. Many of them, feeling that they could better afford to keep their connections with retailers unbroken than to deal with farmers, which in many instances would disturb the retailers' status, refused outright to sell to farmers. Other wholesale establishments were found with which business could be done, but these troubles led the state Grange to consider the advisability of erecting flourmills and gristmills in order to avoid the whole issue, so far as flour and feed are concerned. It is believed that grain might, perhaps, be bought advantageously from coöperative elevators. The proposal calls attention to the fact that doing the work of the merchant without an established place of business, without incurring the overhead charges to which the local dealer is subjected, has distinct limitations. The issue sooner or later arises as to whether the coöperative group can dodge the retailers' profits part of the time and depend on him for service at other times, or whether it may not be necessary to take over the entire machinery of the operations and substitute the coöperative agency for the private. The New York Grange Exchange does a considerable amount of business which does not involve the disturbance of wholesale-retail relations. For example, it handles produce originating on the farm, as seed corn, and sells it directly to other farmers.

The Pennsylvania Grange runs an exchange similar to the one in New York and with a somewhat larger aggregate of business done in 1919. The bulk of this business is of the same character as that done in New York.

During recent months the State Grange of Washington has fostered the building of Grange warehouses. The plan is to organize one or more in each county of the state. These are all connected in a business way with a state Grange warehouse in Seattle. The object is the usual one of greater economy in buying and selling.

Stores.—Ordinary general stores, such as were started by the Grange a generation ago, are still to be found under Grange auspices in many parts of the country, particularly

in the eastern states. One of the most notable of all, however, is located at Olathe, Kansas, doing a business of several hundred thousand dollars per year.

Notwithstanding the eminent success of a few Grange stores, the numbers of them do not increase greatly, and many that do exist fail to come up to expectations. The undertaking of work of this kind by farmers is attended with great difficulty.

Educational and Social.—Speaking of the political and economic undertakings of the Grange, the Master of the National Grange says, "These are minor things in the Grange. The great scope of the Grange is educational and fraternal, and wherever the Grange has dropped these things for purely mercantile endeavors it has been disastrous." The business which accompanies the Grange is nearly always outside of the organization as such, the Grange furnishing the meeting place, the inspiration, and the opportunity. One of the prominent workers writes, "The experiments of the Granges actually transacting either buying or selling operations in general are neither advisable nor successful."

It is worthy of note that the first idea of the Grange was a fraternal organization with a strong emphasis on education. After a spectacular entry into the economic arena, followed by a fall, the Grange has recovered and shown its strength and endurance in the line first chosen. It does not claim to be able to solve all economic ills, although it uses its influence in that direction. It does undertake to provide a clearing house for the educational and social life of the countryside not taken care of otherwise. The line of education fostered is naturally that pertaining to agricultural interests, so that a large proportion of the topics considered are of an economic nature. In one state a fund is provided for loans to college students; in New York the Grange elects one member of the Board of Regents of Cornell University; in all states where the Grange is strong, a close connection with the agricultural college is maintained.

Thus, as an economic organization the Grange, while

important, is not so aggressive as many groups of farmers demand. As a marketing force, the Grange is able to get certain results, but when it comes to undertaking radical reforms its recent history, present membership and status, suggest strongly that some other organization will be permitted to take the lead.

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CHAPTER XIX

THE FARMERS' ALLIANCE

The Grange and Alliance Contrasted.—The Grange has a perfectly well-known origin. It grew from a single source and spread in a manner not difficult to trace. The Alliance, on the other hand, had many fairly separate beginnings, like a river system, which unite to make the main current. Not only is it difficult to find just where and when the different branches of the Alliance originated, but even when they are found they seem on first appearance to have, in many instances, but little relation one to another. That they came together and formed a unit even as homogeneous as the Alliance is strong evidence that there was a fairly similar dominating motive.

As has been pointed out above, the Grange began with a broad, general program, but soon narrowed down to the question of marketing as its central principle. The Alliance was more obviously an economic movement from the start. It emphasized several economic questions in addition to marketing, as will be noted, but it is hardly an exaggeration to say that it was more concerned with the prices of farm produce and farmers' supplies than with anything else.

The Grange undertook to keep out of politics and succeeded in great measure in doing so. The Alliance went consciously and eagerly into politics. It did try for a time to avoid partisanship, but to do so and prosecute its demands was not feasible. The Alliance virtually organized a party of its own.

The Alliance never became a great social factor among farm people. It lacked the attractive features of the Grange ritual, the regalia, the literary programs, and friendly intercourse. The attention was centered on prices, monopolies, political grievances, and their remedies. Of

course, the same was true of the Grange to a great extent, but the Grange kept these social phases of its purpose in the foreground in some parts of the country, and did not neglect them entirely anywhere. The Alliance resolved to solve the economic ills and let their solution provide for the more incidental matters of community life.

The Origin of the Alliance.—The origin of the Alliance, so far as priority of organization is concerned, is not definitely known. It has been claimed by farmers of Texas, Arkansas, Kansas, and New York. The usual statement is that it was first started in Texas, but that similar movements were begun in several other places entirely independently. This probably is a correct version.

The Alliance began in Texas, according to the best available reports, in 1874 or 1875. It was an organized effort of a local character, to rid the country of land sharks and cattle thieves. This was not very closely related to the purposes of the Alliance as they later developed. A state organization was effected in 1878, which, however, terminated in 1879. Trouble over politics was the main cause of the collapse of the new organization.

The failure was temporary, and during the same year, 1879, a new Alliance was formed, with the intention of staying out of politics. The first state meeting was held in July, 1879, almost ten years after the formal founding of the Grange. It may be said that, so far as influence and strength are concerned, the Alliance followed the Grange in point of time. True, they were in a measure contemporaneous, but for the most part the power of the early nation-wide Grange was spent. Again, it may be noticed that while the Grange was nation-wide its main strength was in the North, especially in the Middle West. The Center of the Alliance was farther south and somewhat farther west.

Within a few years after the organization of the Alliance in Texas similar associations grew up in a dozen parts of the country. In point of numbers, the most important was the Agricultural Wheel, which originated in Arkansas. Five years after the organization was started it claimed a

membership of half a million scattered through several states. The platform of the Wheel was similar to that of the Alliance mentioned below.

Another organization, called the Brothers of Freedom, started in Arkansas the same year the Wheel was founded. A Farmers' Union had been launched in Louisiana in 1880. The Northwestern Alliance was organized in Chicago in 1880, and in 1887 had a membership of one hundred and fifty thousand. The Farmers' Mutual Benefit Association was started in southern Illinois in 1882 or 1883. Another organization, called the Farmers' Alliance, had been started in the state of New York in 1875. These organizations, with the exception of the Northwestern Alliance, united previous to the year 1889, and in 1889 the new organization also united with the Knights of Labor, then in its decline. The occasion for uniting with labor was the belief that farmers and laborers had a common cause against capital, and that the remedy must be of a political nature. It was determined to go into politics. The united organization was known as the Farmers' Alliance and Industrial Union. The particular and universal occasion of the organizations was the wide discrepancy between the prices which the farmer received and the prices which he paid. The story as told by one of the founders of the Wheel relates the familiar instance of virtual serfdom in which the merchants of the cotton belt are said to have held farmers, particularly the tenants. "The Wheel was born on the 15th of February, 1882, in an old log house . . . its parents, as stated before, were monopoly and oppression." It was openly and manifestly a rebellion against the middleman. These widespread and very similar, though independent, movements had much the same cause back of them as had the Granger movement. It was rebellion against the economic situation in which the farmer found himself. The statement was made, and was substantially true, that while the main crops of the farmer had increased in acreage and yield by a full hundred per cent from 1867 to 1885, the selling value, as a total sum, was less. That much of the discrepancy could be

accounted for by explaining the character of the currency in use at these two dates, mattered not. In fact, the redemption of the greenbacks was one of the causes of discontent. The farmers were in favor of more money per capita. Of no small interest is the geography of the Alliance. Its main strength was in the tier of states cut by the hundredth meridian; the sections in which free farms had been a disappointment, in which the low price of farm produce brought the greatest distress, in which the high price of farm supplies, the pinch of poor credit, and the supposedly high freight rates provoked the keenest protest. Whatever may be the claim and philosophical explanations of the case a third of a century afterward, it is little wonder that the people who were the victims of such circumstances looked earnestly for a remedy.

Economic Efforts.—The Alliance and the constituent associations out of which it was made were determined to solve the economic ills by direct and immediate action. They followed nearly the same path as had the Grangers a decade earlier. State purchasing agents were employed, and business through them ran into millions of dollars. Stores were started in many places, and while they had the usual hard experience of farmers' stores, they succeeded, nevertheless, in many instances. There are still in existence in Texas, Kansas, and other states stores which were organized by the Alliance. That many of these stores resulted in important savings cannot be doubted.

Another line of effort was the establishment of farmers' elevators. Few of these proved to be on a permanent basis, yet some of them survived, and later served as the inspiration and model for the coöperative elevators which have become so numerous.

A great deal of coöperative buying and a small amount of selling were done by Farmers' Alliance groups for some years, mainly from about 1888 to 1895. The purchases consisted of bulk shipments of twine, fertilizer, feeds, seeds, and the like. The sales were farm produce, but aside from the sale of grain through the elevators and cotton through exchanges, they assumed no great proportions.

These transactions were in addition to the business done through state agents. The work of the latter centered in general farm and family supplies, mainly groceries and machinery. That savings were effected is certain. The transient character of the business is explained mainly by the impatience of the farmer in awaiting results, by the lack of understanding of the middleman function, by the belief that most economic problems are capable of political solution. The immediate economic program was merged in the political program in the belief that the latter comprehended the former, and must be solved first, after which details would take care of themselves.

Political Efforts of the Alliance.—On uniting with the Knights of Labor the Alliance put forth a comprehensive and ambitious program. It was carried into the political arena in 1890, and formed the basis of a third-party movement in 1892, under the name of the People's Party.

The leading demands of the Alliance in its platform of 1889 and 1890 were three, two of them pertaining to marketing farm products. The three demands were: (1) the abolition of national banks, the establishment of subtreasuries which should loan money directly to the people at not more than two per cent interest on nonperishable farm produce and on real estate, the increase of the circulating medium to fifty dollars per capita; (2) the prevention of future dealings in agricultural and mechanical productions; (3) the free coinage of silver. The platform of 1892, on which the presidential campaign was waged, was essentially the same as the earlier forms.

The subtreasury plan is worthy of special notice. This measure was put into the form of a bill at the St. Louis Convention in 1889 and was soon introduced in Congress. Briefly, the bill provided for the establishment by the Treasury of the United States of a warehouse with suitable branches in each state. The farmers were to have the privilege of depositing in these warehouses grain, cotton, or tobacco, in return for which the subtreasury should issue treasury notes equal to eighty per cent of the estimated value of the produce. At any future time the

farmer would have the privilege of presenting his warehouse certificate and claiming his produce on payment of 2 per cent (at first it was to have been 1 per cent) interest on the amount advanced to him. Of course, such a bill could not pass, but it showed the state of mind of the western and southern farmers. They were determined to make the government help them out of their marketing and general financial dilemma. The abolition of future dealings in produce was not a new demand at that time, and it is still with us. Free coinage of silver was a passing, though extremely persistent, phase of frontier politics.

In numbers the Alliance made extravagant claims, it being declared by many of its friends to have reached the three-million mark. While this was a gross exaggeration, there was a loosely knit membership of something like a million. As noted below, the People's Party cast a vote of about a million and a quarter, but they were by no means all Alliance votes.

In 1890 and 1891 the Alliance was greatly encouraged politically by carrying the election in several states. In South Carolina they elected Benjamin R. Tillman governor, and in Kansas they retired John J. Ingalls from the Senate, putting W. A. Peffer in his place. Other radicals, such as Jerry Simpson of Kansas, were elected to Congress.

In the campaign of 1892, with James B. Weaver of Iowa nominated for the presidency, it was the hope of the Alliance, with the support of the labor vote on which so much dependence was put, to break the power of the old parties and to bring the government under the control of the common people. It was a distinct disappointment to carry but three states and parts of a few others, making all told but twenty-two votes in the electoral college. The claim was made that fifty members had been elected to Congress, including in the number seven or eight Senators. While this was apparently significant, it must be admitted that the majority of these were fusion candidates, and most of them made their way back to their old party relationships.

The political momentum of the Alliance spent itself in

the Bryan free-silver campaign of 1896, and within a short time it all but ceased to exist as a farmers' party. Like the Grange, it had succeeded in reducing, in a measure, the cost of things the farmers had to buy. In some instances they had obtained more for what they had to sell. A few of the coöperative companies started by them continue to exist, yet by deserting the economic field for the politico-economic field they of necessity withdrew attention and support from the coöperative undertakings, and found the field of politics too big and unfamiliar for them to command. They were swept into the currents which ran so strong that their own craft was finally abandoned for the bigger ones. The problem of marketing, like the other problems they had undertaken to solve, was left for later reformers to struggle with.

Summary.—Although the Alliance was by no means a complete failure, it is hard to show unmistakable proof of its success. The local units disintegrated, the business undertakings either failed, went into other hands, or for some reason became inconspicuous. The bold stand on political issues meant success or failure of a pronounced character, and it proved to be the latter. The fundamental occasion for the failure was the unsound economic thinking which permeated the advices at the beginning. They had delivered broadside shots at evils in general and they hit nothing in particular.

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CHAPTER XX

AMERICAN SOCIETY OF EQUITY

Origin and Organization.—The date usually given as the time of organization of the American Society of Equity is 1902. That was the time at which it was formally launched, although down in southern Illinois several years earlier the idea upon which the society was eventually founded had been promulgated, and several local unions had been organized. The basic idea was the control of markets.

During the year 1902, according to reports, the plan was presented to the editor of an agricultural paper in Indianapolis. At once he accepted the idea and began a campaign of remarkable vigor in spreading it among the farmers. Thus this editor is usually called the founder of the society. He published a book, *The Third Power,* in which he undertook to prove that the farmers by organizing would be able to create and exert a power comparable with that of the two powers already in active operation, namely, the capitalistic power and the labor power. It was frankly stated that the farmers should, through combination, set the prices which they should get for their produce. In order to take away all appearance of creating a combination to restrain trade, such that the consuming public would have cause for complaint, it was set forth as a matter of common knowledge that the other organizations were artificially raising prices. "Power applied through organization is the industrial law of the day." And since, in the opinion of the founder, a farmer elected to Congress could do no good, it was his advice that the farming class cease to look to legislation as a means of relief. "Farmers can live on their produce," while other people are dependent upon them. "If we are to have class government —we should not—then the largest class should rule."

Born of these general sentiments was the assertion that "the farmers are under no legal or moral obligation to feed the balance of the world at an unfairly low price," and in order that there should be no economic obligation compelling them to do so, a world-wide organization of farmers was proposed.

The central thought of this society has always been the control of markets in contrast with improvements in production. Instead of studying ways and means of increasing the wheat crop, for example, it has sought to induce the building of granaries, warehouses, and elevators; to organize finances so as to hold for a higher price when prices are low; and to market coöperatively, economically, when the proper time arrives for making sales. It was a comprehensive scheme, and was advertised widely through the above-mentioned paper and book, and somewhat through the general press. Organizers were put into the field, and a large membership was soon enlisted. At one time, it was claimed that a million farmers had joined, but a more conservative estimate puts it at about one-seventh that number.

Plans of Work.—Almost at once the Society was in the thick of a great fight. It was not then, nor is it now, the policy of the Society to take hold of marketing problems directly. It is their purpose to carry on propaganda, to give advice, inspiration, and aid to those who are engaged in such work, and especially to induce farmers to enter the coöperative field. The plan of procedure was, in the early program of the Equity, to guide the farmers in their efforts to withhold produce from the market until such time as it would bring the price agreed upon by themselves as the equitable one. In this respect their program resembles closely that of the Farmers' Union during its first years.

The Wheat Campaign.—The first conspicuous effort of the Society of Equity was to increase the price of wheat. Wheat was selling at about 70 cents a bushel, and had been higher than that only two years in a decade. It was clearly a low price, so low, indeed, that farmers had very little left for their work after paying the necessary

expenses of producing the crop. The Society of Equity began a campaign for "dollar wheat." Farmers were strongly advised to withhold their wheat from the market until the amount which was sold would bring the desired price. In order to enable the farmer to do his part in the matter, he was advised, where feasible, to build granaries on the farm and store grain there; in other cases, to build coöperative warehouses and elevators at the railway stations in order to store grain to some extent, and to sell advantageously when the time should come. It was an opportune time to give the latter advice, since the movement in building coöperative elevators was already on, having got a new start in 1902. The term "dollar wheat" sounded good to the farmer. He was flooded with literature urging him to join the Society. Great numbers, especially in the wheat regions of Minnesota and the Dakotas, joined. There is no doubt that they took the advice to a considerable extent, and kept their wheat out of the market, appreciably during the autumn months of 1903 and 1904. Nevertheless, the quantity left on the farmers' hands on March 1, 1904, and on March 1, 1905, was about the same in proportion to the crop as it had been for several years previous. The price rose. It rose, in fact, to about the figure named by the Society of Equity. It may be noted in this connection that the crop of 1904 was short by some twelve per cent as compared with that of either of the preceding two years, and by over twenty-five per cent as compared with the crop of 1901. Again, it may be noted that this was a period of rapidly rising prices in almost all goods making great drafts on either land or labor in their production. Hence one may be pardoned for skepticism respecting the cause or coincidence in the relation of the farmers' organization to the price changes. During the period since the inauguration of the campaign the prices of wheat have seemed to vary very consistently with the amount produced, but in considering the amount produced it is necessary, of course, to take into account the world supply and not alone the product of this country. Some credit, especially in the matter of keeping prices up dur-

ing the months immediately after harvest, is unquestionably due to the activities of the organization.

Of more importance than the attempt at price-fixing in marketing wheat was the stimulus given by the Equity to the building of coöperative elevators. The campaign for the coöperative marketing of grain was just getting under way when the Equity appeared on the scene. Thus the influence of the society in promoting the movement cannot be measured. The elevators increased rapidly in number where the Equity exerted its influence but they increased also where this influence was not present. One phase of the coöperative marketing of grain includes the attempt made by members of the Equity to establish a grain exchange in St. Paul.

The Tobacco Campaign.—Of a more spectacular nature, and at the same time more effective in its immediate results, was the effort to raise the price of tobacco in the state of Kentucky. This struggle involved the question of an equitable price for the tobacco of the "Black Patch," and of the Burley tobacco of the hill country and of the Blue Grass district. In the Black Patch the growers of tobacco had felt that until about 1904 or 1905 there had been genuine competition among the tobacco buyers. After that time the supposed competitors rode in the same buggies, or divided up the territories and paid a price apparently fixed previously by agreement. The farmers were aroused and formed an association of some forty thousand tobacco growers. The purpose was to raise the price of tobacco from 5 or 6 cents a pound to 11 cents. Not all growers were willing to join, and an unfortunate plan of compulsion was adopted. The so-called "Night Riders" visited the laggard farmers and by intimidation, or even by rough measures, forced most of them to join. Tobacco beds and fields were destroyed. A few lives were sacrificed. Temporarily the measures were successful. The tobacco, which could not easily be duplicated in any other part of the country, was pooled, and eventually the American Tobacco Company, and other buyers, rather than go without the tobacco, paid the price demanded by the farmers. This

was a great triumph, and a large part of the credit was claimed by the American Society of Equity, which, although not approving of the outlaw tactics, had been of great assistance in guiding the projects.

Greater still was the victory in the Burley tobacco district. This kind of tobacco had been produced for years almost exclusively in the hill country to the east of the Blue Grass region. It was believed that it could not be successfully grown in the richer Blue Grass soil. A trial disproved this belief, and before long the output had increased enormously. Meanwhile, the American Tobacco Company had become almost the sole buyer of this kind of tobacco. The price which had usually been 20 cents, or over, a pound fell to 6.5 cents. It could not be profitably grown in the hills for less than 20 cents, while in the Blue Grass country it paid well at 10 cents. At 6.5 cents it was grown anywhere at a loss. The Burley Tobacco Association was formed in order to resist the power of the American Tobacco Company. The plan was to pool the tobacco; to set a price on it fair to both parties, as the farmer believed; to limit the amount produced in order to insure continued high prices. The growers, as a class, were anxious to join, yet some, especially the hill farmers, resisted. The "Night Rider" methods brought them about all in. The crop of 1906 was assembled in warehouses, erected largely under the inspiration of the American Society of Equity, and pooled. A price, 15 cents, was set on it. Where the grower needed the money, and this was frequent, arrangements were made whereby it was borrowed and advanced. When sales were made the money was divided on a *pro rata* basis among those who had tobacco in the pool. But sales during the first year were few. Another crop was grown and added to the pooled stores of the warehouses. The American Tobacco Company professed indifference, since it claimed to have a ten-year supply on hand. The third year the tobacco growers determined to reduce the amount grown. In fact, in 1908 they undertook to prevent the production almost altogether, and they were remarkably successful. The Equity

Society was very active, especially in the matter of financing the farmers before the sales of tobacco were made. The case as presented to the tobacco grower was substantially this: "We have a certain quantity of tobacco on hand; we can sell it for around 15 cents a pound if we do not add to the amount in stock. Is it not better to sell one or two crops at 15 or 18 cents than to add a third crop to the amount and sell the entire quantity for the same aggregate sum, or for even less?" In spite of the protestations of the American Tobacco Company that they did not need any more Burley tobacco, they paid the prices asked, from 17 to 20 cents, for the pooled tobacco.

This was a victory such as few organizations of farmers have ever won. However, the production of Burley tobacco, which was but about one-tenth the normal amount in 1908, suddenly rose to the usual amount in 1909. The price which had been held at such a high figure immediately slumped to half the amount. The pooling of the crop came to an end. The monopoly of the American Tobacco Company was more complete than before, on account of the refusal of the Burley Tobacco Growers' Association to sell to independent tobacco manufacturing companies using low-grade tobacco, their supply at anything below the general price for the pool. In short, what had happened was substantially this: The conditions under which Burley tobacco was produced underwent a pronounced change. The price fell. A concerted resistance to the reduction of price, accompanied by a rigid limitation of the supply, succeeded in effecting a return to the old price for a period. After this the economic forces again asserted themselves, the resistance weakened, and the normal conditions, a new normal, prevailed. The price of Burley tobacco for some years was about half that obtained for the tobacco pooled and sold during the years 1907–1909. The production has shifted from the hill country to the better soils of the Blue Grass section where apparently the farmers were able, before the war, to produce it for less than 10 cents a pound. Since that time it has again risen greatly in price.

There are left over from the severe struggle several con-

ditions of advantage to the growers. They have their co-operatively owned warehouses. They have a better and more normally economical system of grading, packing, and selling. They have better credit facilities than formerly.

The pool ceased before the 1909 crop was ready for the market. Why this should have been the case is not apparent on the surface. The fact is, it was so difficult to hold the farmers in line that the leaders did not seem anxious to attempt its continuation. One explanation given is that the battle had been won and the occasion for fighting was past. This explanation is by no means satisfactory. The battle was, in a sense, won, but the prospect of future peace on anything other than adverse terms was negligible. The slump in price was inevitable. Another drawback to the continuation of the pooling program was the adverse decision of the Kentucky Court of Appeals and the Supreme Court of the United States.

However, the Burley Society did not go out of existence. It undertook to collect a fund from the growers, amounting to ten per cent of sales in 1909, to be used in equipping warehouses. At least seventeen warehouses were built. The company also started a tobacco factory in Louisville. The business, though not great, is increasing. Thus, in spite of the fact that the tobacco growers failed to maintain a control over the market, they have undoubtedly gained a much stronger position as bargainers than they would have had without the pooling episode. They market much more intelligently.

The Equity Reorganized.—In 1907 the Equity Society was almost entirely made over. The membership, which had been of an indefinite character, was brought down to tangible figures.

After the reorganization the membership was very nearly fifteen thousand, half the members being in Wisconsin. The leading states during the next period of about ten years were Wisconsin, Minnesota, North Dakota, Kentucky, and Montana. There was some strength in other states, but not a great deal. The Kentucky center failed to develop after the tobacco campaign, so that state ceased to be of

importance in the organization. North Dakota was the second state in influence until in 1917 and 1918 the Non-Partisan League came into the arena and in consequence the Equity played a minor rôle. The purposes of the Non-Partisan League being very similar to those of the Equity, it was only logical that one organization should take the center of the stage and the other, at least for a time, give way. Similar situations developed in Montana and Minnesota.

In Wisconsin the Equity has grown in numbers, particularly during recent years. In 1913 the membership was about twelve thousand. Four years later it was but little more, while in 1919 the society claimed a membership of forty thousand or more.

Purposes of the Society.—The purposes of the society, as outlined by the secretary of the Wisconsin society, are as follows:

1. To obtain profitable prices.
2. To encourage the building of coöperative elevators, warehouses, etc., at local points, and also eventually at the central markets.
3. To establish exchanges for handling produce and supplies.
4. To secure and disseminate information concerning markets and marketing facilities.
5. To secure legislation favorable to farmers.
6. To secure better educational advantages in the rural districts.
7. To promote such enterprises as the construction of good roads.
8. To prevent adulteration of foods.
9. To promote sociability, e.g., through the organization of clubs.
10. To encourage arbitration in place of lawsuits.

The Marketing Program of the Equity.—The first four of these purposes relate directly to marketing. However, the first is but a general statement, while the fourth is

being taken care of by the State Division of Markets. This leaves numbers two and three for discussion. With respect to number two, it may be said that many marketing companies have been organized under the inspiration and direction of the Equity. Probably the largest in point of numbers are the live-stock shipping associations. Then come potato and produce companies, elevators, and many instances of coöperative buying or selling which have grown out of this movement without its formal aid.

With respect to exchanges, it may be said that the Equity has made considerable progress, and promises much more. There are no outstanding instances of the operation of exchanges. The Equity Coöperative Exchange of St. Paul is a notable attempt to run a farmers' grain and live-stock exchange, but it is not under the auspices of the Equity Society. It was started by Equity members and is now run mainly by men who have at least a membership in the organization.

The Wisconsin Society of Equity has for several years maintained a business organization for the more direct handling of commodities between the farmer and the wholesale trade. The most effective part of this work has been in connection with dairy feeds, flour, twine, and coal. In the same manner, but less in bulk, such commodities as apples, potatoes, and seed grains have been handled. The business department of the Equity has no warehouses and hence can do only the office portion of the business, a brokerage business, as it were. Shipments are made from the place of purchase, for instance, from the flour and grist mills of Minnesota or North Dakota, directly to groups of farmers who place the order. The shipper sends the bill to a designated bank, and the farmers pay cash and take possession of the feed on track, attending to the unloading and the division among the group, as best they can. Thus they do the retailer's work and get the benefit of the greater part of his margin. The Wisconsin Equity office did a buying business of $2,500,000 in 1920. Sales made, and others supervised, were several times as great as the purchases. A similar office is in operation in Montana, and

plans have been made to start others in the states having a fair representation of Equity members.

A much more ambitious movement has been launched by the Wisconsin Society of Equity. Arrangements of a preliminary nature are perfected for the coördination of all business undertakings of Equity members in which group action is feasible. Wherever there is a propaganda organization, on the one hand, and a business organization, on the other, there are sure to be differences of opinion as to the relations between the two. Shall the general organization exercise any degree of authority over the business unit? It always comes down to a specific question something like this: Shall a large, general body, such as the Society of Equity or the Farmers' Union, have a controlling voice in the management of a business exchange, or in a creamery or cheese federation? The argument in favor of some measure of control usually centers in the question of unity of action. Without this there is danger that some business group, inspired in the first place by the general body, may later build up a constituency and affiliations of its own, and eventually sever substantially all connection with the parent society. The argument against such control is simple and direct. It is based on the proposition that butter must be handled by those interested in butter, cheese by those interested in cheese, and not by any group, however wise, whose main concern is less definitely focused.

The Wisconsin Society of Equity has undertaken to harmonize these opposing views by providing an arrangement whereby the major control of all marketing enterprises is in the hands of those directly concerned, but in all cases with a representative of the general society on the board of management. This is designed to promote harmony, and, just as important, to insure the coördination of all forces with a view to progress toward a common goal. It is in the nature of an interlocking directorate, and if the

details work out as planned it will mean that all Equity forces will be given general guidance by the Equity Society.

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CHAPTER XXI

THE FARMERS' UNION

The Farmers' Educational and Coöperative Union of America was originated in Texas in 1902. The credit of founding the society is given unreservedly to Newt Gresham by the historian of the Union. Mr. Gresham was deeply impressed by the poverty of the cotton growers, laboring as they were under the credit and mortgage system in vogue in connection with the marketing of the great staple crop of the South. The first declaration of principles, as set forth in the charter granted to the initial union, was to the effect that marketing, better prices, and fraternal considerations were the objects of the society. The rapid growth of the organization did not begin until about 1906, at which time an elaborate constitution was adopted. In the preamble to this constitution is to be found the statement of purposes, the important one from the marketing standpoint being, "to secure and maintain profitable and uniform prices for grain, cotton, live stock, and other products of the farm." Another clause condemns the work of boards of trade, cotton exchanges, and speculation in general.

The movement was an effort to break through the artificial market barriers and to get for the farmer a large share of the price paid by the consumer for his product.

Organization and Membership.—The Farmers' Union has a national organization, various state organizations (usually designated as divisions) and local societies. The Union is established in about twenty states, principally in the South and West. The membership is large, but exact figures have never been available. Probably the claim a few years ago of two or three million was very grossly exaggerated. Between five hundred thousand and eight hundred thousand was more nearly correct. The greater proportion

of the membership is in the cotton belt, but some northern states, notably Nebraska, have large numbers. The membership is confined, so far as practicable, to actual farmers. The Farmers' Union has passed through several phases of effort to accomplish its results. The first was an attempt to control prices directly, that is, by agreeing upon a price and refusing to sell for less. The second phase was an attempt to limit the output in order to make price control feasible. The third part of the program was an attempt to finance the farmer in order that he might carry out the program with respect to price control and limitation of output, involving a warehouse plan. These were the main counts in the early program of the Union so far as business was directly concerned. Running through it all was the recognition of the necessity of educating the farmer in matters pertaining to marketing, and out of the experience in attempting to put the program into effect came a realization of the more fundamental matters at the very basis of agriculture, such as land tenure and credit. Apart from these sweeping programs the Farmers' Union has gone into coöperative business in several notable instances. These will be discussed in order.

Control of Prices.—During the first years of the Farmers' Union the greater part of its attention was focused on the marketing of cotton. It was the belief of the Union that the greatest market in which its people were concerned —the cotton market—had fallen into bad hands and had become an institution not primarily concerned in effecting exchanges, but a medium for gambling. To correct this evil the Farmers' Union set itself to work. It undertook the plan of fixing a minimum price below which the farmer was advised not to sell. This plan of action was begun as early as 1904, when the Texas Union set a minimum of 10 cents a pound on middling cotton. Nevertheless, cotton sold under 9 cents. For the crop of 1906 the Union set a minimum price of 11 cents, and during the fall months the price rose from 9.25 cents, to 10.75 cents, after which it continued to rise until it reached 13 cents, in August the following summer. The Union claimed great credit for

having induced the farmers to withhold their cotton until after the period immediately following harvest, at which time the greater share had usually been sold. Encouraged by this new success, or coincidence, whichever it was, the Union took a bolder stand and set a minimum price of 15 cents for the 1907 crop. Almost the entire crop was disposed of, however, for from 10 to 12 cents. The next year a minimum of 12 cents was set, and the prices received were, in most cases, below 10 cents.

The apparent success of the price-fixing plan in 1906, and its failure in subsequent years, are not hard to explain. In 1906 the price set by the Union was about what was to be expected, in view of the prices in former years and the yield of the year in question. Encouraged by what they viewed as a triumph in price control through withholding from the market a larger part of the crop than normally was withheld during the late fall months, the Union gained strength. It was on this basis of courage rather than a foundation of statistics that the price set for the 1907 crop was so much above that of the preceding year. The yield of cotton in 1907 was quite below that of 1906, about 16 per cent, but was, nevertheless, a normal yield. The result was that the price remained at about the level at which the 1906 crop had been sold, or hardly more than two thirds of the figure set by the Union. The panic in the fall of 1907 was a contributing cause of the low price. The crop of 1908 was fully up to normal, in fact close to the maximum, in yield. The Union decided on 12 cents as the price, but was unable to control the situation, demand and supply apparently acting in an unrestricted manner.

The Union had, at least temporarily, performed one important service in steadying the market. It persuaded the farmers to hold more cotton off the market during October, November, and December, and so prevented in a measure the extreme decline in price which seemed destined to occur at that time of year.

Limiting the Supply of Cotton.—Early in the fight for a higher price for cotton the Union recognized the fact

that prices followed very closely the supply of cotton offered, rising when cotton was scarce and falling when it was plentiful. To withhold cotton, after it was grown, from the market, might accomplish the desired result temporarily. It might, by equalizing the prices paid over a period of months, be of great benefit to a vast majority of farmers, since so many sold at the low prices of October and December. But this equalizing benefit was not all that the Union undertook to secure. It was demonstrable that the larger cotton crops were worth less to the producers than were the smaller ones. Why then should the big acreages be relied on for increased income? Before the Farmers' Union had assumed great proportions the Southern Cotton Growers' Protective Association had undertaken to control prices, and it had undertaken especially to reduce the cotton acreage of 1905. The Farmers' Union used its influence in the same direction as did the Southern Bankers' Association and the cotton exchanges of New York City and New Orleans. It was agreed by these associations that a reduction of 25 per cent would be desirable. This effort brought results without doubt, for the acreage fell from 30,000,000 to 26,000,000, or about half as much as was proposed. The price was 25 per cent above that of the preceding year. That this increase was due largely to the lessened supply cannot be doubted. That the minimum price set by the organizations had something to do with it is possible. The significance, however, of the manipulation of prices by these means appears trifling in the light of the facts of the next year. The Farmers' Union counseled diversification of crops and less cotton. This would have paid the whole group of cotton growers had they carried the plan into effect, but in the language of a leader of the Union, "Whenever we tell the farmers to plant less cotton, they plant more." The reason for going contrary to the advice is obvious: it is to the advantage of an individual to have a large quantity of cotton to sell when his neighbors have less than usual. In the spring of 1908 the Union made a rather tactful move in favor of a reduced acreage. Nothing was said about it

during the planting season. Then in May, too late for planting cotton, but in time for some other crops, a circular was sent out, calling upon all members of the Union to plow up at least ten per cent of the growing crop. Some was actually plowed up, but there is little evidence to suggest that any appreciable percentage of the acreage was thus disposed of. At all events, there was as much left as in almost any other year to be harvested.

Warehouse and Credit.—It was evident that prices could not be raised by fiat. It was also evident that the acreage could not be reduced, at least not for two years in succession, by means of exhortation. To advise farmers to hold cotton even for a few months was futile, unless some means were devised by which it could be done more advantageously than had formerly been the case. One great lack was storage facilities. The farmer had often no suitable place for keeping baled cotton at home; there were few warehouses in the villages and cities; there were fewer business arrangements by which the farmer could adjust his financial affairs to the plan of postponed sales. Here was clearly a field for the Union to occupy, and it was not slow in making an effort to do so.

Early in the history of the Union, warehouses were built by local unions for the storing of cotton. The plan was for the farmers to build the warehouse, deposit their cotton in it in charge of a competent agent, and receive a certificate which could be used as security for a loan at the bank, or elsewhere, until such time as the cotton should be sold. Such warehouses are numerous throughout the cotton belt, there being more than fifteen hundred of them altogether, yet this is a small number in proportion to the number needed.

Not only is the cotton stored at the warehouse, but it is also graded and insured. In many cases the coöperative company is prepared, instead of merely issuing the certificate of deposit, to advance the money directly, in this manner virtually exchanging its credit for that of the farmer. There have been plans on foot for some years for amalgamating the local warehouse companies into state

organizations in order to present a more united front to the dealers in cotton in the central markets. This was tried in Mississippi, the state organization owning and operating the local warehouses. It was capitalized at one million dollars. However, the enterprise was short-lived. Although several state unions have made efforts to put warehouse plans into effect, nothing of a signal nature has been accomplished.

Direct Sale of Cotton.—In addition to the warehousing and financing of the cotton crop, efforts have been made to sell independently of the local dealer and even of the great cotton exchanges. State exchanges in several instances have been organized, and the cotton has been put upon the market more advantageously than could be done by local companies or dealers. Some states have business agents, not unlike those employed by the Grange forty years ago, whose duty it is to assist the managers of the local companies in making sales and, likewise, purchases. Examples of the state-business-agent plan are found in Texas and Louisiana.

An important effort was made in 1907 to establish business relations between the Farmers' Union and some of the cotton spinners of England and Germany. A meeting was held at Atlanta, Georgia, but nothing came of it so far as immediate results were concerned.

At Memphis a coöperative company for marketing cotton made some sales directly to European spinners. This company was organized in 1907 and at once opened offices in Liverpool and Manchester. Again failure followed.

The Grading and Sampling of Cotton.—It has been said many times that cotton is handled worse than any other great crop of the country. It is left out in the weather; it is poorly graded, there often being cotton of various grades in one bale; it is torn to pieces seriously in sampling in order to find the poorest possible sample, since by this the whole bale is rated.

Could cotton be graded and sold according to grade, obviating the necessity of depending on the sample, it would facilitate matters very greatly. Not only would it do away

with taking out five, ten, or twelve pounds of cotton from each bale, but it would make possible sales by telephone or telegraph without the delay required in shipping the sample. This reform the Farmers' Union has advocated from the first. It took an active part in inducing the legislature of Texas to provide for instruction in sampling and grading cotton at the agricultural college of the state. In several states short courses of about two weeks—called "cotton schools"—have been held during the winter months. It is the purpose of the Union so to perfect the system of grading that cotton may be sold on this basis much as wheat, for example, is sold as "No. 2 Northern" or "No. 3 Red." It is believed that until that plan is practicable, the cotton market will be more subject to unfair manipulations than the other markets for leading farm products.

Farm Credit a Factor.—After an attempt to raise the price of cotton by withholding some or all of it from the market, it became evident that such action could not be put into practice without warehouse facilities. The attempt to control prices through limitation of acreage broke down utterly. A long road must be traveled toward the goal of self-restraint, unity of action, and diversification of crops before it is to be hoped that a limit can be set artificially to the acreage of a crop grown by more than a million farmers. This fact became obvious. It also was clearly demonstrated that there was little use in urging farmers to hold cotton for a higher price without providing some means of furnishing money for them to use in the meantime.

As a result of these considerations, the Farmers' Union soon concerned itself about credit for the cotton grower. Two plans have been followed. One is the use of cotton deposited in a warehouse as collateral on which to borrow at a bank. In this the Union plays little or no direct part unless it acts as the responsible custodian of the cotton. The other plan is the furnishing of money by the warehouse company to the owner of the cotton. By these plans the farmer has been enabled to hold a great deal of cotton for the better prices of winter and spring instead of selling

on a demoralized market in the fall. The experience in furnishing credit to a limited number of farmers has led the Farmers' Union to take a vital interest in the general subject of farm credit, since without an improved system of credit the marketing of produce cannot be carried far toward perfection.

Land Tenure.—Just as the proposal to hold crops for a higher price led to the question of credit, so the question of credit led to land ownership and tenancy. It was plain that a man with no land and not much other property was a weak bargainer in the credit market. Close to five eighths of the cotton growers are tenants, and many of the remaining three eighths are not much more independent, their property being mortgaged heavily. Very naturally, then, the Farmers' Union leaders began to talk of the improvements needed to make farmers more independent. Here the circle was completed. Farmers were economically weak because they were poor, and they were poor because of weakness as bargainers. The tenants were weak bargainers in dealing with the owners of land; the owners were, many of them, weak in their dealings with the men of whom they had bought land; and both of these classes were weak bargainers in making sales of their products. Thus it was found to be necessary to strengthen the cotton growers in other, possibly more fundamental, respects than merely as sellers of the annual crops.

It is, then, not strange that the Farmers' Union has taken more interest in the difficult problems of farm credit and tenancy and in the educational side of marketing, and less interest in arbitrary price-making in recent years.

Politics.—The constitution of the national society forbids strictly the discussion of questions of partisan politics in the meetings of the Union. Nevertheless, the Union has, from the beginning, determined to go into politics, "business politics," as they have termed it. "Going into politics is our sole salvation. Until we do go in, we will be trying to turn over the earth with a toothpick."

Following out the determination to use political means to accomplish their ends, the Union has demanded a long

list of reforms to be accomplished through state and national legislation. Prominent among these are demands for laws against dealing in futures on margins; favoring the physical valuations of railroads, telegraphs, telephones, and express companies as a feature of regulation; limitation of the ownership of land by aliens and by corporations; and opposing a central bank. In the various states the Union had demanded many reforms relating to the initiative and referendum, regulation of corporations, taxation, interest rates, pure food laws, and especially in several states, laws pertaining to agricultural education. The Union in the state of Washington claims to be largely responsible for the passage of the initiative and referendum law. The voting strength of the farmers is such that whenever they are aroused on a political issue they at once become a formidable factor. The difficulty has always been to unite them; this the Union is attempting to do, and with some measure of success.

Business Undertakings.—The Farmers' Union has developed some of the largest and most successful business establishments operated by farmers anywhere in the country. The leading one of these is the Farmers' Union Exchange at Omaha, Nebraska. This exchange was started in 1915. The occasion for starting it was the hope of reducing prices on farm purchases. During the first few years the main business consisted in selling to members, singly or in groups, such goods as the Exchange handled. The leading lines were groceries, coal, twine, and farm machinery, with many other items, such as clothing and house-furnishing goods, which were added from time to time. The Exchange has become a great department house doing a catalogue mail-order business.

During the past few years, in 1918 and 1919 especially, there have grown up throughout Nebraska a large number of coöperative stores. The Exchange acts as a wholesale house to these stores. Through this means goods are sold more at wholesale and less to individual buyers. The business of the Exchange in 1919 was over $3,000,000.

A similar exchange, but not yet so large, has been estab-

lished at Des Moines, Iowa. Perhaps the most important effort of all thus far made by the Union is the live-stock commission business, with branches in each of seven cities. In the South the Union operates, besides warehouses, cotton gins, fertilizer plants, and local stores.

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CHAPTER XXII

THE NON-PARTISAN LEAGUE

The Non-Partisan League is the latest attempt at a class-conscious movement of farmers against organized business. It is a little hard to say in a word just what the League is organized against, and possibly "organized business" may not be the best term for expressing it. Specifically it seems to be opposed, first, to the grain exchanges; second, to the packers; third, to the bankers. The railroads come in for a good deal of attention likewise, and it all centers in the way the affairs of government, state and national, are managed.

The geographical features of the Non-Partisan League are of interest. The League had its origin in the vicinity of the 100th meridian, and its main strength is in the line of states from North Dakota to the south, spreading to the northwest as far as the coast, and to the east to Wisconsin, with organizations of less importance widely scattered. Thus it occupies roughly the same territory in which the Alliance, the Populist Party, and the Equity found the most congenial soil, and corresponds somewhat closely to the regions in which the Grange and the Farmers' Union achieved their greatest successes. The grievances and the motives back of the Non-Partisan League are strikingly similar to those which favored the growth of the earlier organizations. It would be easy to write several lengthy chapters on the origin and efforts of the Non-Partisan League. However, a single chapter of moderate length is all that will be offered. It must be kept in mind that the main purpose of the League is the reorganization and reform of markets. Everything else, the capture of state and national legislatures, the state ownership of certain industrial machinery, the affiliation with the labor unions, are all a means to the one end of getting more out of farm produce. It is the product of the quantity produced times

the price which is of vital concern, not the mere number of bushels, or pounds of product. Nature has not been kind to the North Dakota wheat growers during most of the years since the state was settled. From 1910 to 1920 inclusive, the average yield of wheat for the state has been about two thirds that for the country at large. Four or five times out of the eleven years mentioned there was what is usually referred to as "half a crop." These facts, and the origin of the Non-Partisan League in North Dakota, are not without the cause and effect relationship. Again, it must be remembered that North Dakota is a long distance from central markets, and as was noted in the chapter on transportation, so far as the individual producer is concerned, the cost of getting produce to market comes out of his income. The income of the North Dakota farmer was not gratifying. The Non-Partisan League promised to improve the situation. A statement made by the League governor of North Dakota sets the matter in a fairly clear way as the League understood it:

> But we have come to the conclusion in the Northwest that we must take some consideration of the marketing end, and that it is not so much of importance for us to produce big crops as it is to get better prices for what we do produce. We must get prices that will pay us a profitable income, we have discovered after a good deal of hard work and experience, and they are both mighty good teachers. We have found out that we were not progressing as we had hoped to. We have found that the number of farm mortgages throughout the country are increasing. We have found that the interest has likewise increased, and we have found that more and more of the farm lands are getting into the hands of agents, or, I mean, into the hands of speculators, thus making room for more tenants. So we have concluded that the only thing to do is to have something to say about the making of the laws in those agricultural states.
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> We believe that the only way that we can remedy and better our farm conditions and solve this marketing problem is by having something to say about the laws; because the law really regulates all of these things. In a lot of instances we have found year after year that we were doing well if we paid the interest on the mortgage, and that was about all that we expected to do.

Do you know that there are thousands of farmers throughout the Northwest who, if they sold out to-day for the price they paid for their land when they started in farming and cleaned up their debts, would not have money enough left to move to the poorhouse? Thousands of them are scattered throughout this Northwest, and the money that they would have left represents their profits on their farming operations.[1]

The Non-Partisan League Defined.—No very formal definition is called for. The League is a new grouping of voters without respect to earlier party affiliations, pledged to support the new organization. It is not the plan of the League to put a third ticket into the field in opposition to the two old party tickets, but to make one of the old parties theirs. Thus, in a Republican state, they will prefer to endorse and manage the Republican Party. In a Democratic state, the Democratic ticket is the favored one. Of course they are not obliged to take up with the dominant party, since it is always to be hoped that the strength of the League will serve to make the party of its choice victorious.

Farm Credit and the League.—Closely associated with the marketing issue was the matter of farm credit. Farmers who are getting both poor crops and poor prices are always in need of much credit, and not likely to be well provided with it. So it was in North Dakota. Interest rates were high at banks, and credit with merchants was, in some instances at least, reported to have been high beyond reason. While it cannot be expected that interest rates in a new district, especially where crops are not regularly good from year to year, will be low, it is nevertheless probable that the rates were higher than they should have been. On this subject the feeling was strong. The farmers believed that they were being treated unfairly, that the merchants and bankers of their own communities were making money while they, the producers, as they call themselves, were not. While the credit subject will be discussed but briefly in this chapter, it must not be forgotten that it is one of the primary questions involved in the whole matter.

[1] Lynn, J. Frazier, *Marketing and Farm Credits*, 1915, p. 311.

The League Program.—The main counts in the League program have been the same from the first. They are:

1. State ownership of terminal elevators, flour mills, packing houses, and cold storage plants.
2. State inspection of grain and grain dockage.
3. Exemption of farm improvements from taxation.
4. State hail insurance on the acreage tax basis.
5. Rural credit banks operated at cost.

Of these leading purposes there are but two that were not in operation, or much advocated, in other places. The state compulsory hail insurance was comparatively new, while the main plank in the platform, the first one, was, and is, substantially a new demand. It will be recognized of course that this demand is by no means new in socialistic doctrines, and the connection between socialism and the Non-Partisan League is fairly close, since the founder and several of his coworkers were formerly socialists. Even so, this is incidental. The real question is, What is to be expected of the demand by the League that the state shall own and operate these industries? It is on the principle of state ownership that the League must justify itself, if it justifies itself at all.

Voluntary coöperation in marketing produce had been in progress for a long time, particularly since about 1902 in the grain business, but it had not accomplished what was wanted, and the leaders of the Non-Partisan movement decided that it was too slow and uncertain. They wanted to deal a knock-out blow to the "grain gamblers," and felt that state ownership was the most hopeful means of delivering it.

State Ownership.—This is the kernel of the Non-Partisan nut. The state is the only organization which, as they view it, is able to make the necessary investment, and is impartial enough to run the business in the interest of all concerned. It is not necessary here to ask why this decision was made. It is conspicuously true that no adequate effort had been put forth in this country to de-

velop to the full the coöperative plan of handling grain. There was for some ten years prior to the organization of the Non-Partisan League a company in St. Paul doing business based on coöperative principles, but it had not received the united support from the farmers of the Northwest. The Canadian grain growers had been getting gratifying results from their coöperative selling; in fact, they were doing so well that they were being studied as a model company by every one interested in coöperation at home or abroad. It was felt in our Northwest that the Chamber of Commerce was too strong to be subdued by any company of farmers. The fear of the Chamber was nothing short of an obsession.

Many people have "viewed with alarm" the attempt at state ownership of the leading means of marketing. They have made violent attacks on the League and have called it by all manner of unsavory names, the worst of which, in the minds of those using them, was, apparently, "Socialism." But calling names is a poor method of attack. The question does not hinge on a classification of undertakings designated as socialistic or nonsocialistic. The question really is, Do we, or do we not, want to undertake the state ownership of elevators, mills, and packing plants? Before answering the question, let us remember that we are discussing a farmer movement. The Non-Partisan League is essentially a farmer organization. Its purpose is to improve the lot of the farmer with respect to prices received by him for his produce. The hope of doing so by putting the keys of marketing into the hands of the state may serve campaign purposes during the initial stages admirably. It sounds plausible, at first blush, to say that the state will be fair, that it represents all classes, that it is capable of managing industry. No one questions the fairness of the state in the abstract. The trouble will come when a class far removed from the farm comes to vote on the prices of farm products and on the wages of the laborers who elaborate the farm product. The state represents all classes, but there has not yet been an agreement as to the basis of the division of the social income. The

laborers of the country at large feel that the farmers are much better off than they themselves are. What is more, this feeling is based on good evidence. Should the time ever come when the farmers and laborers jointly control the means of marketing there will be a clash of interests that will shake the alliance from center to circumference. The belief that farmer and laborer have common cause against the capitalist will suffer when for practical purposes the farmer is obliged to admit that in a modest way he is himself a capitalist. Men with $30,000 worth of land—and that is below the 1920 estimate of the average value of a farm, exclusive of buildings, in Iowa—may view themselves as poor and oppressed, and not without reason possibly, but the laborer of the city is going to take a different view of the matter.

State ownership of industries vitally connected with agriculture in North Dakota is one thing, while the same arrangement in Wisconsin or Illinois would be quite another. In North Dakota the farmers may well say, "We are the state." In Illinois such a claim is unthinkable. What about great, growing, hungry Chicago? And not only Chicago, but a dozen other cities. Are the farmers willing to cast their lot in with their "brothers" of the nonagricultural class and legislate incomes on the basis of "fairness"? The answer has already been given in the action and attitude of the Farm Bureau Federation which has been sweeping the country.

There is no occasion whatever to get excited over the Non-Partisan League, so far as state-owned industry is concerned. They were obliged, after deciding on this form of enterprise, as opposed to coöperation, to branch out and include within their ranks some other class. This being the case, it was a foregone conclusion that the laborers were to be the allies. And the laborers, always looking for support, quite naturally receive the entreaties with favor. On the face of it they have nothing to lose, and may gain. They stake nothing. The connection of the League leaders with socialism means that the socialist portion of the labor group may be more easily won over than the more con-

servative element, but that is an unimportant incident. There is no occasion to get excited over the state socialism of the League, because, to begin with, none of us know exactly what the state should undertake, and what it should keep out of, and the agitation of the League, and possibly its experiments, may eventually furnish a little further evidence and information on which to decide. The more consoling reason for lack of alarm is that the League, in view of the Farm Bureau movement, stands no chance whatever of putting any considerable part of its distinctive marketing program into effect. If it contributes agitation out of which the questions concerning the regulation of grain exchanges are made clearer, the country as a whole, and the farmer in particular, will benefit.

State Credit.—Closely associated with the financial side of marketing is the matter of general farm credit. If the latter is sound and adequate, the former is automatically taken care of. In North Dakota the financing of the marketing operations has been an acute question because the farmers have been contending against pioneer conditions, and have had the added aggravation of frequent bad weather conditions. As a result, the banks have been short of money the year round, especially every fall. To settle the financial difficulties has been a primary consideration with the League. In view of the recent successful efforts of the federal government in the Federal Reserve and Federal Farm Loan banks, it was natural that the League should look quite favorably upon state authorities and state money to be used in solving the farmers' money troubles. Whether the plan followed is a sound one from the standpoint of good banking has been called in question very pointedly, and by disinterested authorities. However, if the plan is not a good one it can be revised. The private bankers of the state must show that they can serve the people better, and at no higher charge, before they are entitled to condemn in unqualified terms the effort at state banking. They are, on the other hand, doing the state and all concerned a service in pointing out the weaknesses of the system—and there

would seem to a casual observer to be some rather conspicuous ones. To get more flexible credit facilities into operation in a pioneer community is one of the first marketing requirements. It is the business of bankers to see that it is done. If they fail the farmers have a just cause for complaint, and ought to try some other means.

There have been bank failures in North Dakota, but there have been failures, too, outside the sphere of the League. Consideration of the merits and demerits of the Bank of North Dakota, the $2,000,000 bank organized by the League, is hardly in point here. The bonding of the state for credit and industry has been upheld, not alone by a state supreme court, elected in large part by the League, but by the United States Supreme Court. Evidently, if people want state-owned marketing facilities and banks, they may, so far as the Constitution is concerned, have them.

Summary and Conclusion.—To begin with, it should be understood that the rise of the Non-Partisan League is to be accounted for on two main counts. One is the fact of small crops and small incomes in the Northwest. This has been due, from time to time, to drought, aggravated by a poor system of selling produce and by an inadequate system of financing marketing operations. No adequate understanding will ever be reached respecting the movement without a knowledge of the psychology developed by the circumstances. It must be known that the farmers were in a mood for blaming some one. They had been told of the evil ways of the Chamber of Commerce until they accepted them as truth not requiring proof. Whatever may be the shortcomings or merits of the Chamber, it has shown little skill in getting along with the farmers. A deal of mud slinging has been done by both sides. The coöperative elevators—the farmers' own organizations—had, it was charged, been unable to withstand the wiles of the Chamber. Wanting money for buying grain, they had permitted the seductive offers of credit from the commission firms to overcome their antipathy to a real enemy, and through these offers, had been taken into camp. It was

the manager who had been lured from the straight path, but it was the farmer who paid the penalty, all of which emphasizes the undoubted fact that a farmers' company, like any other, should be adequately financed.

The second count, which may be subsidiary rather than coördinate, is the psychological state of the farmers. They felt that they had been abused. Having this feeling deeply ingrained in them, they were ready for a spectacular rather than a matter-of-fact remedy. They preferred that their old enemies the politicians, especially those who, according to reports, told them to "go home and slop the hogs," should suffer defeat. There was a spirit of chagrin, of humiliation, at having been "easy marks" in the past that stirred them to the depths. They not only wanted more money for their crops; they wanted to realize on their heritage as citizens.

The failure of the Equity Exchange to command the situation; the failure of the local elevator to do the impossible in getting the best price out of the grain; the continual reiteration of the alleged crookedness of the Chamber; the feeling that since they, the farmers, were not prosperous, somebody must be standing between them and prosperity; all these facts, intangible, yet real facts, made it easy for the clever organizer to get a following. And an organizer almost unsurpassed in cleverness, possibly honest, but convinced of the unfairness of "business" in general; a man who intentionally or inadvertently uses partial truths as though they were full and complete;[2] who accepts the cost-of-production theory as sound in its application to farm operations; who sees no inherent difficulties in uniting two classes of the population, even though their interests may be opposed one to the other—such a man appeared on the scene. A considerable portion of the program is sound, and such as is sound will undoubtedly stand. The state-owned mills and packing plants will come if cooperation among farmers is too weak to manage them. That such is the case does not thus far seem evident.

[2] *Farm Journal*, October, 1918.

That there should be farmers enough in the legislature of every state adequately to represent the farmer element, should be freely conceded. With a full representation it will be relatively easy to call upon other classes to come to the rescue with their support in case, even under favorable conditions provided by legislation, the farmers fail in their marketing operations. The greatest menace to the League and its program seems to be the rapidly developing plans of the American Farm Bureau Federation. To say that their programs do not conflict is merely to ignore patent facts.

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CHAPTER XXIII

THE AMERICAN FARM BUREAU FEDERATION

Only once in the history of farmer movements in America has the government fostered an uprising among the farmers, and this time unwittingly. The Smith-Lever Act resulted in the employment of county agents, a system that has spread well over the country. The county agents are employed jointly by the federal government, the states, and the counties. Within the counties in a large number of states have been organized county farm bureaus. These are groups of farmers, and not in a few instances the inspiration, part of the membership, and part of the money came from the people of the towns and cities. The groups came to be mostly farmers eventually, whether or not they included townspeople in the first place. The members were the responsible body to whom the county agent was accountable, though the state and the federal Department of Agriculture are always parties to the plans. The farmers, where the bureaus were formed, and this was not done in all states, came to be the dominating factors because of the money they subscribed, and because it was for the solution of their problems that the whole program was instituted.

The County Agent and County Farm Bureau.—It would be as easy to give an idea of the duties of a country doctor as to describe the work of a county agent. The doctor attends to all physical ills of the community. The county agent is counselor, adviser, and friend in all matters pertaining to farming. His field covers all questions of biology, plant and animal, soil physics, the operation of machinery, and last, but by no means least, the economic problems of the day. It not quite clear that economic matters were intended to come within the purview of his program. At least it is fairly certain that the town portion of the influence back of him did not intend him to be a mar-

keting agent. He became such for the same reason that the country doctor becomes an optician and an alienist. There was no one else to do the work. No matter how pressing were the demands for help in fighting the San José scale, or in eradicating tuberculosis, the question of buying and selling came continually to the front. It was not the county agent who was to blame for the situation. Rather the bureaus employing him, or at least directing him, insisted on having help in what came to be recognized as the most imperative demand, the most necessary reform connected with agricultural problems. These bureaus began to hold state meetings, and eventually to form themselves into state federations. The state federations had enough money and push back of them to command respect. They outgrew the need of help from the towns in the older and richer parts of the country, paying $4,000 and more for competent county agents.

The State Federations.—There is little to say about the state federations except that they were a logical and necessary step from the county bureau to the national organization. The states with the strong federations took the lead in calling a meeting for the purpose of perfecting a national body. This meeting convened in Chicago in November, 1919, and organized the American Farm Bureau Federation. This was a temporary organization, the permanent organization being effected in March, 1920.

It was no accident which brought this about. The time was ripe for a farmer movement. The Non-Partisan League was flourishing in the Northwest. The Equity was doubling its membership in Wisconsin. The Farmers' Union was making good headway in various sections. Even so, there were too many farmers who did not belong to these organizations, and too many who for some reason or other would not have joined any one of them. However, here was ready for use in every state in the Union, almost in every county, a group already in a sense united, and for a common purpose. Why not vitalize the skeleton by putting some flesh and blood with it and make a farmers' society already nation-wide, and give action and virility to a body

not now functioning in a large or comprehensive manner? This is what was done.

Purposes and Plans of the Federation.—Although there are five counts under the heading *Education* in their program, and seven under *Legislative*, it is perfectly evident to any one who has followed them that the counts under the caption *Economic* are the ones on which the heart of the Federation is centered. These are:

1. To extend coöperative marketing of farm crops to that point in the distribution system where the maximum benefits are secured for the producer, and incidentally, for the consumer.
2. To limit the profits and reduce the costs of distribution in all lines not handled coöperatively.
3. So to estimate the effective world supply of any farm product and so to regulate the flow to market as to eliminate sharp and extreme price fluctuations.
4. To establsh new foreign markets for surplus American farm products.
5. To provide cheaper sources of fertilizer and more economical means of production.

In their preliminary meeting in Chicago they declared that the farmers were entitled to cost of production plus a reasonable profit. The cost was to include an allowance for soil fertility, the unpaid labor of the farmer's family, a wage for the farmer commensurate with that received in other occupations. The leading men attending this meeting made it clear that the advice of those not believing in the program of starting with cost as the basis of demands was not wanted. This was but a reflection of the almost universal belief in cost of production as the ultimate explanation of value, and the immediate and conscious basis of price to be obtained by parties and organizations capable of looking out for themselves. The farmers were about to enter that class and hence would make use of the principle. This theory was still advocated warmly in one of the biggest meetings ever held by the Federation, the one which convened in Chicago in July, 1920. Somewhat surprising,

then, is the fact that in their final declaration of purposes no mention was made of the cost of production as the goal.

Marketing on the Commodity Basis.—This method of marketing has been known recently as the "California Plan," though just why it should be so designated is not altogether clear. The successful coöperative efforts have been of that sort all along, and the creamery, cheese-factory, potato, cranberry, and grain-marketing organizations scattered widely over the country are strictly of the commodity type, many of which antedate the successes in California, and in any case have sprung up independently and naturally. Be that as it may, the commodity is clearly the correct basis of grouping. In conformity with this principle, the American Farm Bureau Federation is proceeding on the commodity plan. Important committees of fifteen or seventeen men have been at work for months formulating plans for marketing grain, live stock, and fruit. As these committees bring in their reports, the Federation arranges state meetings for discussion and modifications, and finally a national meeting is held for putting the program into acceptable shape for adoption. The marketing of any given commodity is done by and through an organization designed specifically for that purpose. The Federation is a fostering parent. The active work of marketing the different products is strictly in the hands of the groups concerned. The task of getting these groups organized is facilitated vastly by the large membership of the Federation. They join the Federation on general principles; it is the thing to do. Just what part they are to take later does not even need to be known at the time of joining. Once members of the Federation, they can easily decide which, or how many, of the marketing companies fostered by the Federation to join. The grain growers will join the grain-marketing company; the meat producers will join the live-stock shipping company; those who sell live stock and grain will join both.

Compulsory Pooling.—That farmers should contract for the delivery of all the grain or other commodity they have for sale, and that the selling organization should receive

and handle it, the same as a pool, selling when it seems best, was recommended strongly by a minority at each of several important meetings.[1] This is the crux of the whole vital question of an attempt to fix prices on the produce, as contrasted with an effort to sell to the best advantage in view of the price-making forces at work. It might, or might not, partake of the nature of a monopoly, but it seemed to be the intention of its advocates that it should. It would be a useless effort, however, in the case of wheat, without a tariff.

To compel every farmer to enter a pool, such as the raisin producers do without visible compulsion, presupposes that the markets for these various commodities are similar. Should we succeed in isolating ourselves as wheat growers, the similarity would be much greater, although of course the advocates of the compulsory pool hold that the raisin growers do not have the American market to themselves. They may not, but they have a comparatively easy time in finding what price is needed to meet competition, and in that way are able to calculate the available supply for the American market very closely. If they succeed in getting a tariff the task is made quite simple indeed. With wheat the case is essentially different. We are relatively little concerned about imports, but genuinely dependent on exports. A successful compulsory pool of wheat implies a central management of the pool. In all reason there will be an element of speculation involved; wheat will be held for sale in the spring and summer following harvest. Where this is done in such a crop as raisins it is with the possibility of anticipatng the price that will move the whole crop. If wheat is to be dealt with in the same manner, with the same desirable result, the pool must contain, near the time of its closing out, a quantity of goods wanted at a price as high as, or higher than, that obtained earlier in the season. Otherwise the pool is going to be unsatisfactory to those in it. With voluntary pooling the producers in it may be expected to

[1] This is advocated by Aaron Sapiro of California. See *Coöperative Grain Marketing*, Illinois Agricultural Association.

take their losses with good nature, since they have but themselves to blame. That wheat, or any other grain, will be higher in the latter part of the season than earlier is to be expected, but the exceptions are too numerous to be ignored. Speculation on the part of a coöperative company may succeed, but it is fraught with great hazard. The Federation is wisely steering clear of this danger.

Resemblance of the Federation to Other Farm Movements.—The American Farm Bureau Federation is sufficiently unlike other great movements to warrant notice. The differences are so strong, in fact, as to suggest the inclusion of this chapter in Part III instead of here, in the group of general farmer movements. The explanation of such possible classification is the strict adherence to the commodity line of demarcation among marketing companies. However, this is not new, and it must be admitted that the Federation has much in common with other general farmer movements. It is hoped that these resemblances will be smothered rather than accentuated as time goes on. The remarks which follow relate to the differences between this and other movements rather than to the similarities.

Promises to Members.—In this respect the Federation has a good, though not a perfect, record. Out in the country one can hear that the Federation has promised for $10 to do as much as the Non-Partisan League promises for $18. This statement may well be doubted, but what some of the enthusiastic organizers may have promised might be hard to determine. If they promise the complete overthrow of "big business" they are certainly exceeding their instructions from headquarters. The comparatively mild promise to take speculation out of the grain trade is so hedged about by a recognition of the facts and probabilities of the case that there is little likelihood of its causing trouble. In fact, the official statement of the program makes no such promise, and it is only the unofficial utterances which lead to the belief on the part of many that it can and must at all costs be done. So far as the official promises of the organization are concerned, they

are within reason and may conceivably all be fulfilled. If the central organization can only keep its friends, and especially its organizers, during the next half-dozen years from promising too much, one of the main sources of danger will be avoided.

Attitude toward Existing Business Interests.—For the most part the Federation is holding to a sane course in this respect. The attitude of rabid antagonism, vituperation, and abuse which some farmer organizations have taken in the past has profited little or nothing. It is only now and then that progress is made by tactics of this kind. There is really a considerable probability that men in existing lines of business are good and bad, much like the general run of humanity; not all the unprincipled ones in one line of business, not all the commendable ones in another. If, as may well happen, there is a better way to do business than the one in practice, a positive, not a negative, method of procedure will best bring the desired reform to pass. The campaigns of mud slinging in the past have been nothing short of disgraceful and tend to discredit the parties indulging in them. The Federation has a good record in this regard, though of course it cannot be held for the utterances of all its friends. In the main, the Federation may be characterized as one of the most constructive and least destructive of the farmer movements up to date. This is a matter of great distinction and promise.

Politics.—On this point hinges the future and fate of the great number of farmer movements. To stay out of politics seems to many farmer leaders suicidal. To go in means that the other party, or parties, may be immediately responsible for the demise, but that the demise will follow is almost certain. Why this degree of fatality should accompany the entrance of farmer organizations into the political arena is hard to explain, but thus far such has been the case. The Alliance to the full, and nearly all other farmer movements in part, have failed because of the temptation to seek in politics the answer to their conundrums. It is the childish faith in the ability of the state to correct the evils.

The Federation is already maintaining a representative in Washington, but this is not entering politics in a bad sense. Quite the contrary. It is entering politics properly, or it might be denied that this is entering politics at all. To look out for the interests of the farmer while Congress is in session is the duty of somebody, and if the organizations of farmers do not attend to it, it will not be done.

The real question is not whether the Federation should have ideas on political issues and bring pressure to bear in having them decided in the interest of farmers. The question is, rather, whether or not the Federation will feel itself compelled to put its own candidates, partisan or nonpartisan, in the field against interests which are supposed to take the opposite side of the farmer program. There might be instances in which this would be highly desirable, but if it becomes the main *modus operandi* of the organization, it will undoubtedly fail. It will fail because the attention which should be concentrated on the solution of knotty problems, one-tenth political and nine-tenths economic, will be dissipated, because the lines of cleavage will get hopelessly crossed and other groups with other interests will make demands on the farmer party which it cannot resist. After the political entanglements get so great as to divert energy from the main issue it is of little avail to explain how a victory might have been won.

These remarks are made concerning the Federation and politics, not because of any signs of the Federation's going into the field, but because of the difficulty of staying out. The question at issue is whether or not the farmers can develop sufficient poise and judgment to resist such a strong temptation. With one or two million members all presumably wanting the same thing, the suggestion is going to be well-nigh irresistible that so great a political power be turned to use. The Canadian grain growers seemed immune to politics for some years, but now Ontario has a farmer parliament, all the provinces but one have farmer parties, and for a time the President of the United Grain Growers, Ltd., was Secretary of Agriculture for the Dominion. At present he is the leader of the farmer party

in the Dominion Parliament. That the Canadian farmers are in politics in earnest cannot be doubted. One of their purposes is to oppose protection, which the manufacturers are favoring. Whether their entry into politics will weaken them as coöperators remains to be seen, but there is one important point in their favor: they had their business enterprises well under way before entering the political field.

The political venture may not portend danger, but it suggests it. A farmer party, or a labor party, or any other party in this country representing a single interest, is never in such peril as when in power. Undoubtedly the laborer organizations have fared much better than if they had been able to put their own members into Congress in large numbers.

CHAPTER XXIV

THE TARIFF AS A MARKETING ISSUE

The charge is often made that economists are free traders, while business men and manufacturers, having the practical point of view, are likely to be protectionists. No doubt more economists would favor protection if by doing so they could increase their own personal incomes, this being one of the practical considerations so potent in enabling the manufacturers to side with the protectionists. However, the economists are by no means unqualified free traders. What the economists have advocated for years is a nonpolitical scientific tariff commission which could take each problem and consider it on its merits, instead of voting for a tariff on everything, or on nothing.

One eminent economist, Frederick List, known as a protectionist, argued that free trade should be practiced by a nation, or people, during the hunting and fishing, the pastoral, and the agricultural stages. During the transition stage from agriculture to manufacturing, agriculture of course continuing, protection should be instituted. After the manufacturing and commerce are established, free trade should again rule. List did not even consider protection for agriculture, taking it for granted that agriculture would follow geographical and climatic advantages without artificial stimulus.

The Tariff a Marketing Problem.—Whether viewed as such at all times or not, the tariff is primarily a marketing question. Shall we let the Englishmen into our woolen markets on the same basis with ourselves? Shall we permit American consumers to buy German toys or French percales without paying a tax to the government for the privilege? These are the real decisions to be made whenever a tariff is proposed. The first effective argument used in inducing the American farmers to vote for protec-

tion was that of the home market. Henry Clay was the great home-market apostle. The farmers were told that they could afford to pay a higher price for manufactured goods because of a saving that was sure to result in transportation charges. The market for wheat would be Philadelphia instead of Liverpool.

The Agricultural Tariff from 1860 to 1913.—During the early part of this high-tariff period not much attention was paid to the farmer, the tariffs, political, in the worst sense, being made by the political friends of the manufacturers, and passed around to every interest that wanted a tariff so as to strengthen the defenses against opponents. The farmer made few demands in the early part of this period. It had not occurred to him that his products, of which there was a deplorable excess, could be raised in price by the same process used in increasing the price of manufactured goods. He took his reward for party loyalty in reflected prosperity and was thankful to have a home market. During the Cleveland campaigns the dominant protectionists got nervous concerning the farmer vote. The "bloody shirt" argument was getting threadbare, and the home market was not yielding very high financial returns. In 1884 the campaigners in the Middle West made a great concession: The farmer had not received fair treatment in the past. The manufacturer had occupied the center of the stage, had been organized and insistent. The farmer had been patient, and had been neglected; he was to come into his own. Because of the competition with countries of cheap grain, especially Canada, his prices had been low. The manufacturer had flourished under a tariff. It was now proposed to give the farmer the same benefit, not only in kind, but in degree. Some thirty or forty per cent in duties had brought prosperity to the manufacturers. The farmer should have as much on his products.

Whether the humor of the situation was appreciated by the managers of the tariff party or not, the country campaigners took it seriously. With perhaps not much more background for an understanding of the case than was furnished by the campaign books, the stump speakers had no

trouble in maintaining serious expressions while telling the farmers that a tariff of 30 cents a bushel on wheat would raise the price by that amount. Similarly with corn, for, although the Canadians would not depress the market by shipments to our ports, the Argentinians would. So they went the rounds, proving to the farmer that a tariff would relieve his difficulties.

The tariffs, for political effect only, are numerous. One of the best students of the American tariff, Professor F. W. Taussig, explains so clearly the nonfunctioning duties that a paragraph is quoted. Speaking of tariffs of no effect, he says:

> Of such levies there has been a plenty in our tariff history. Those on the staple agricultural products are the most familiar and conspicuous. In the logrolling which is an almost universal concomitant of protective tariffs, the notion that a duty will surely be of benefit to domestic producers has caused our farming sections to insist on "their share" of the going favors, and to accept, nay, demand, duties on wheat, corn, meat and meat products, which yet have been quite without industrial effect. There has been no more striking illustration of the average farmer's naïve state of mind on this subject than the bitter opposition aroused by the reciprocity treaty with Canada which the Taft administration proposed in 1910-1911. The free admission of wheat contemplated by that treaty was supposed to portend disaster to the wheat growers of the Northwest; though it was known to all the world that wheat was exported both from the United States and from Canada, and that it was the same in price (allowing for cost of transportation) in these two countries and in England. The range of commodities subjected to duties yet not at all affected by them, has been very wide, including not only agricultural staples, but many manufactured articles.[1]

No gold brick was ever more eagerly purchased, although the gilding was so thin as barely to afford a covering. Prices were distressingly low. When the low-tariff policy was in vogue the opposition attributed the prices to the lack of tariff. When the Dingley Bill failed to stimulate the price of wheat the difficulty was explained in terms of

[1] Taussig, F. W., *Some Aspects of the Tariff Question*, p. 4.

panics, general world conditions, or whatever occurred as the most plausible. Really some of these explanations were sound. The only trouble was the pitiful effort to explain the failure of the tariff. There was always one unanswerable argument: The prices might have been much lower without the tariff. At all events, many farm prices were low until the World War; for example, the farm price of wheat remained below $1 until 1916. The tariff on farm products was on the books till 1913, and in certain particulars it was decidedly effective.

The Demand for the Tariff in 1921.—Never in the history of America has there been such a concerted effort on the part of the farmers in demanding a tariff as during the years 1920 and 1921. The inevitable had happened. With our prices high; with Europe bankrupt, but trying desperately to produce her own foodstuff; with the rate of exchange such as to make the prices of American foodstuff prohibitive to Europeans, it was inevitable that such nations as had a surplus of agricultural product would find American prices tempting. Hence importations began to arrive during 1920, and at once came a demand for a tariff. A tariff was probably inevitable anyway, but doubly so in a country which had proclaimed for a generation that the tariff was the cause of its prosperity.

No more unmistakable type of mercantilism can be found in the history of nations three centuries ago, as manifested in the trade doctrine, than is discoverable in the tariff doctrines of the past half-century of our own views and practices. The advantages of selling more than we buy; the necessity of protecting infant industries; the home market; the dangers of being outdone by people of a lower standard of life, all these have done yeoman service. As a natural result, we have come to the acceptance of the all-round doctrine of protection, a view that never occurred to List, nor to any of the practical protectionists until it became politically expedient, even necessary, forty years ago.

The undoubted fact that all trade eventually resolves itself in an exchange of goods for goods is either forgotten or disputed. The deadening effect of the railroad rates on

freight traffic is lost to view in the fog of tariff vaporings and platitudes. The natural and only means which debtor nations have of paying their obligations by tendering the products of their industry is forgotten. The almost inevitable enactment by other nations of retaliatory tariffs is ignored. We go ahead as though we could dictate the policy of world commerce unhindered; as though we could hope to sell to our bankrupt debtors for cash and at the same time expect them to produce more cash for the payment of the old debts. All-round protection assumes that one nation can help itself, increase its prosperity by shutting out the products of other nations and making its manufactures dear by a tariff, and its food dear by the same process. The doctrine is so absurd as to seem to require no refutation, yet its persistency rivals that of a primitive religion. We are apparently becoming a nation with capital and transportation facilities to export, but these cannot be exported advantageously in the face of a hampering policy with respect to the movement of goods. If we insist on goods artificially dear we must expect the disadvantages of inefficient production. This is taking the national point of view on the question, and such is not the view taken by those in charge or those making the demands. They are asking for immediate remedies for present ills, not for a diagnosis of the case and a fundamental prescription which might fit it. A few of the concrete problems are discussed below.

Protection on Wool.—This question is as old as the sheep industry. We have always imported much of the wool needed. The production of wool is a pioneer industry and, moreover, one which has flourished in other countries better than in our own. The sheep producers profess a patriotism superior to that of the average citizen, and ask that we rise to the distinction of independence in respect to wool production. We have dealt with the subject in a vacillating manner, as is true of substantially all tariff-supported industries. The most recent discovery of the woolen trade is the military dependence of the nation on their goods, and if both the Atlantic and the Pacific oceans

should be closed to American traffic by a blockade the clothing of an army of a few million men would become serious.

One thing will be admitted concerning the tariff on wool and woolens; it works. That the consumer pays the difference made by the tariff, and this is an amount far in excess of the tariff itself, is easily demonstrated. A tariff on wool is a genuine protective tariff because we are not a great wool-producing nation, and do not seem inclined to become such. Should we develop a greater taste for mutton and demand more of it it would tend to make wool a by-product and thereby enable our wool growers to sell it at a lower price without feeling that it meant a loss. If the American farmers would take the advice of the sheep enthusiasts and keep a flock of from ten to thirty on a quarter section farm, as poultry is kept as a side line or as a few hogs are kept on a dairy farm, the question of wool would assume a different aspect. But thus far the advice falls mainly on deaf ears. The average farmer does not want to keep sheep. For years we have produced about half of the wool used in American mills, which means distinctly less than half of the woolens, much being imported in the form of cloth. We presumably know what we are doing. We are giving the wool grower protection, and he is producing a fraction of the wool we need. That is to say we gave him protection until just before the World War, and the war was greater protection than any tariff. Now we must reënact the protection. No judgment is here offered. If we want high-priced wool and woolens in the belief that the indirect results justify it we know how to bring it to pass. Protection on wool really protects.

A Tariff on Sugar.—Here again the tariff functions. America is a deficit area with respect to sugar, and a tariff tends to keep the price up. The prediction, though made by a Cabinet member, that sugar, properly protected in the initial stages, would within a few years sell for 2 cents a pound, has not come to pass in spite of the fact that the tariff, or a bounty, was supposedly adequate for over twenty years. During the period of the Dingley and Payne-

Aldrich tariffs the price of sugar was apparently not less than 1.5 cents higher because of the tariff.[2] Thus sugar is another product which can be affected by a tariff. The price can be raised, and sugar can be grown under conditions which would be prohibitive under free trade, and for this dearly raised sugar the consumer must pay. The occasion for a tariff on sugar has been thus far the fact of the small amount grown in this country and the belief that we are always better off to the extent that we produce our own goods.

A Tariff on Wheat.—For some forty years we have had, most of the time, a tariff on wheat. During nearly all this time we have been exporting wheat in large quantities, but not always to the same extent. About two thirds of the time the exports have been over twenty-five per cent of the crop for the year. How it can be seriously argued that the tariff has operated in an important way toward raising the price of wheat under these circumstances, is not discernible, but such an argument has been put forth. A check valve is put in the outgoing soil pipe from a modern house. It is designed to stay open unless, by some chance, the liquid should undertake to run the other way, in which case the valve closes and stops the movement. The tariff is something similar. It is designed to retard the flow of goods into a country. But when the goods are moving positively outward the restrictions would hardly seem necessary or operative. The case is somewhat more complicated than the illustration. We are so situated with respect to the Canadian wheat fields that it is natural for some portion of the Canadian crops to flow through American channels on its way to Europe. Much of it is milled here and exported as flour. The wheat grower has always taken this incidental importation seriously. To him it means lower prices. He rejects the doctrine that an export commodity is governed by world prices, and holds that even though ten or twenty per cent of the commodity may have to be sold for what it will bring abroad, the larger part may be held up to a higher price by a tariff. The advocates of this explana-

[2] Taussig, F. W., *op. cit.*, p. 97.

tion of the price-making forces should be required, or at least permitted, to defend their contentions.

In a recent article a United States senator contended that the doctrinaires make a poor showing alongside of practical men in this matter of the workings of a tariff. He insists that during the year 1911, although we exported 32,000,000 bushels of wheat, the price was but 10 cents a bushel higher in Liverpool than in Minneapolis. If the wheat had all belonged to one company, or to a few acting in concert, it would look like a clear case of holding the consumer up for what the traffic would bear, and "dumping" the balance for what it would bring. Since, however, the wheat belongs to many parties, just why some of them would sell for the Liverpool market at less than the American price does not appear. The whole subject requires a great deal of statistical study. For instance, there may have been a few points of variation from par in exchange; there may have been, too, a relative scarcity of certain kinds of wheat, and therefore on such, real protection. Without attempting to go into a quantitative refutation of the contention it may serve the purpose fairly well to note that in May, 1911, wheat sold in New York City for export purposes at 94 cents on an average. Wheat in Liverpool, highest grade, was $1.113. The wheat we were exporting was of different grades, and it would be hard to find out its exact selling price, but it had for difference in grade, and for cost of shipment, a margin of 17.3 cents. This involves no mystery, as the ocean freight was but 4 cents. No. 2 Red Winter wheat was worth 96.5 cents in New York City, and probably about $1.07 in Liverpool, counting it 2 cents below No. 1 Northern. These are facts enough to suggest strongly that the economic laws were not entirely repealed by the enactment of a tariff on an export commodity.[3]

What may well have happened near the close of the season of 1910–1911 is that with very little wheat to export, the Northwest became a deficit area and the price rose to

[3] The argument of the senator referred to will be found in *The Farm Journal*, March, 1921.

the point where export from there to Liverpool could not occur. With Canada, a surplus area, near at hand, it would follow that without a tariff the price in Minneapolis would have been some cents lower than it actually was. To claim that the wheat of the country in general was raised 10 cents for the year 1911 through the operation of the tariff is to ignore the facts.

An import tariff on wheat may well have certain effects in increasing the prices on particular grades. Suppose, for example, that hard spring wheat is scarce, but that all other wheat is abundant. The millers will bid for the hard wheat and keep the price above the export point should they not get what they want for less. Canada is likely to have plenty of wheat of this kind and a tariff will keep it out, or at least raise the price of it on this side of the line, and so act as a price stimulant on that grown at home. This is just what a tariff on wheat in 1920–1921 would have done. The case is sufficiently complex, with the transportation factors, the by-products of milling, the differences in grades, rates of exchange, and other miscellaneous complications, to enable the politician to present some very plausible arguments, easily believed by those whose feelings tempt them in that direction.

A Tariff on Meat.—The meat producers insist upon a tariff on meat. The argument is that frozen fresh meats can be brought from Australia and the Argentine and sold in our seaboard cities for a lower price than would obtain under a protective tariff. With tariffs and without, the United States exports great quantities of meat and other animal products. If a tariff were to raise the price temporarily, perhaps at a time when home production was at a comparatively low ebb, the chances are that very soon the high price would stimulate production and put the producers back on the world market. And how a tariff on imports could raise the home price for producers, once they are back on the world market, must be explained by those who believe it. If it is true that we are rapidly approaching the time when importations, instead of exportations, become the order of the day, then indeed the price can be

increased by a tariff. It would mean with this country, as with other countries, that in case it is deemed wise to make foodstuffs sufficiently dear to enable a larger quantity to be produced profitably at home at a higher cost, the means are at hand. That we shall continue to produce meat for export is altogether probable, and just as surely as that is done a tariff on meat, while it may serve political purposes, will be a minor factor in the farmers' receipts.

A Tariff on Corn.—To begin with, it should be noted that the United States raises nearly three fourths of the corn of the world and that it is not, like wheat, a great article of international trade. The price of corn is made, for the most part, on the basis of the demand for a live-stock feed. Hence a demand for beef and pork is indirectly a demand for corn. This does not mean that an interaction is not taking place between corn and meat with respect to price. When corn is very plentiful it may well follow that meat will become more plentiful. However, a good demand for meat will reflect itself in a higher price for corn and vice versa. A demand for corn by European stock feeders will stimulate the price in this country, but much of the time the price here is so high that they do not buy. Exporting less than 1 per cent some years, and seldom over 5 per cent, means that the price is made in this country rather than on a world market centered elsewhere. What, then, would be the effect of small importations? No doubt they would tend to bring our prices to a world level, but at the same time, with meat as the final product into which corn is turned, it would follow that the price of meat and the price of corn could not long remain greatly out of balance. So long as we continue to export both meat and grain, nothing fundamental can be done by an import tariff in controlling prices.

Indirect Effects of the Tariff.—Inevitably one comes back to the question of an all-round tariff. Can a nation increase its well-being by a tariff on everything it produces? If well-being consists in higher prices received and paid for goods, a tariff can undoubtedly increase it. If well-being consists in self-sufficiency, making a nation inde-

pendent of its neighbors, it can be brought about by a tariff. If producing goods at high cost, growing crops where they will do less well than in other sections, growing less of the crops we can grow to the greatest advantage and more of something else, if these methods mean prosperity we can get it through a tariff.

Imposing a tariff on imports is a game at which more than one party can play. The assessment of an import tax against the goods of our neighbors means that they will do the same to us. We shall be paying for the privilege of selling our surplus in foreign countries just as surely as we charge others for the privilege of selling here. Yet to build up a great foreign trade has been the professed ambition of political leaders for many years.

Of all the indirect effects of a tariff on agricultural products the greatest by far is the one which is destined to take place among ourselves. The manufacturers have long felt some embarrassment in presenting the infant-industries argument. The higher wage payment attributable to the tariff does not stand investigation any too well, and the predicament of the farmer in selling at wholesale in a free world market, but buying at retail in a highly protected market has put him at a disadvantage that he will not always be able to stand. Now it is proposed to give him the same stimulant which has proved so exhilarating to the manufacturers, without a diagnosis of the case to see whether or not it is likely to give similar results. The excuse is that the farmer knows what he wants. Everything is set, as though prearranged, for a demand for a tariff on agricultural products. The protectionist party is in power. Prices have been falling for months. Some importations of foodstuffs are being made, and on certain ones a tariff would obviously raise the price. The manufacturers are not afraid of a general increase in prices of food due to a tariff; they want a tariff on manufactured articles; they want the support of the congressmen from the agricultural districts. Thus a novice in politics would see

the advisability of letting the farmers have what they want, and later making demands on them for reciprocal aid in voting a tariff on manufactured goods. Since it is fairly easy to make it appear that the agricultural tariff is effective, there is no reason for apprehension lest dissatisfaction with the alliance should lead to a withdrawal of the farmer support. Belief in a tariff is so fundamental that failure in getting results is no more to be feared than failure in a religion. The farmers are destined to be committed to the tariff for years to come. They will, a few of them, such as wool, lemon, and tobacco growers, gain positively by the measure. What they will lose indirectly they will never know. The majority of the farmers will gain nothing and will have the disadvantage resulting from the higher prices on goods purchased. Whether the manufacturers are entitled to a tariff is quite another question.

Summary.—The farmer wants a market for his produce. As rapidly as the purchasing power of Europe is restored he will profit by selling to European consumers. In the meantime prices are falling and will do so in spite of any tariff legislation. "The recent declines in live stock and meat prices in the United States appear to be part of a world-wide movement toward lower price levels."[4]

To undertake the resistance of these world-wide forces is futile. In order to know the possibilities of world markets it will be necessary to make careful, concrete studies of the facts. There are opportunities to expand the Oriental as well as the European trade. Manufacturers hire high-grade agents to go into different countries to create a demand for their goods. The same tactics will enlarge the market for agricultural products. Here is a job for the American Farm Bureau Federation. Unorganized farmers can do nothing in such a field. A little intelligent study might result in the discovery that judiciously applied tariffs would help, temporarily, to sustain

[4] U. S. Department of Agriculture. Press Service Bulletin, 785, 221.

sagging prices on various agricultural products. To rely on an agricultural tariff applied indiscriminately is too much like the utterance of a prominent farmer leader who said a few years ago, "Unless we put our shoulders together in support of the present prices they will soon tumble about our ears." The fact is, the foreign markets have gone to pieces and the home markets are glutted. Wages in industry and the prices of farm produce are out of balance. Something more fundamental than the passage of a tariff act covering the question of an import tax on wheat, meat, and butter will have to take place before the balance is restored, and when it is restored the foreign market for American agricultural products will be a vital consideration in farm economy.

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PART III

REFORM THROUGH COÖPERATIVE BUSINESS ORGANIZATIONS

CHAPTER XXV

THE SCOPE AND MEANING OF COÖPERATION

Coöperation has made great headway among farmers during the past thirty years, both in Europe and America. Though coöperation is not confined to these countries, the great proportion of coöperation is in one or the other of these two continents. This is only natural in view of the fact that coöperation is a relatively late development in the evolution of agriculture, that is to say, of agriculture organized on a modern basis of individual farms. The occasion for the development of coöperation, mainly during a third of a century only as to time, and within distinctly restricted areas and classes of farmers, even within the general territory mentioned, must admit of explanation. It is true the explanations may be diverse and elusive and in some instances past finding out, yet, as with most other social phenomena, a careful study of the facts in their setting serves to show that most of them are to be comprehended.

Competition.—Farming under ordinary circumstances is a severely competitive business. This fact is perhaps not so evident on the surface as it is in the case of merchants who openly cut prices, first on one thing and then on another, in order to get business away from other merchants. In the case of farmers the competition becomes diffused and so loses its personal character, yet it is none the less real. When, for instance, a million and a half farmers in the United States grow wheat, they are all competing sellers in the wheat market. A certain level of competition is reached, with a resulting price. Should another half million farmers decide to grow wheat the competition at once is increased and, other things being equal, the price finds a different, ordinarily a lower, level. But the farmers have not met face to face. They have not

offered to furnish wheat at a lower price in order to make a sale to the exclusion of some one else. The market area is vast, the wheat comes from many quarters, yet the supply is forecast so well that the future price is predicted, thus resulting in a generalized price over which no one farmer seems to have any control. All of which means that competition in farming is severe, but not apparent on the surface.

Organizations in Relation to Competition.—The laborers, finding unlimited competition intolerable, organize along trade lines in order that they may act collectively. By so doing, some, at least, of the results of open competition are avoided. Likewise, capital gets together into all manner of groups and combinations whereby competition is eliminated or tempered in its effect. Even so, a vast amount of both labor and capital is left outside the pale of organization, subject to the severest competition. Organization may change the character and the level of competition but in some manner the competition is likely to persist. This in no sense discourages the development of organizations which have for their object the elimination or control of competitive forces. If they cannot be controlled to the extent of 100 per cent, it may be entirely worth while to control them to the extent of 50, or 10 per cent.

Farmers' coöperative companies thus far seem to be of the sort that must content themselves with a modest degree of control. In the following chapters an attempt will be made to show how farmers have undertaken to improve their markets by the organization of coöperative companies. Their efforts have been, for the most part, confined to marketing in some of its phases. Examples of these will be given. Other types of coöperation, outside the scope of this discussion, are found in the fields of primary production, insurance, and credit. Coöperation in credit may, of course, relate itself very closely to marketing. Marketing likewise may be expanded to include general merchandising.

Coöperation in Marketing.—The feeling has long been widespread that something ought to be done, must be done,

to introduce more system and order into the marketing of farm produce. On the one hand, farmers complain that they get only half of what the consumers pay for food products. On the other hand, the consumer complains because he has to pay double farm prices. The inference is strong that the middleman is making too much money.

The high price of land, the high price of labor, the high price of farm equipment, all point toward the necessity of careful business methods in the conduct of a farm. In the past the main emphasis has been laid on ways to increase production, but it is becoming self-evident that there is no more occasion to attempt the increase of products than to effect a saving of energy required in getting returns from them. In the long run, it is better to get good results from a moderate production than to increase the quantity produced and waste it in the process of delivery to the consumers. Organization characterizes every great business except agriculture. It is impossible, so far as may be seen, to organize agriculture similarly to transportation or mining, but it does seem altogether reasonable that farmers should get together in large enough groups to enable them to employ talent and skill such as is needed for intelligent action with respect to the market. This the average farmer, alone and unaided, cannot do.

Modern markets are vastly more complex than they were even a generation ago. The farmer produces very little for himself and carries very little of his produce directly to those who consume it. Standing alone at the end of a long line of agencies between the consumer and the raw product, the farmer is at a disadvantage, and unless he looks out for himself, it is not likely to be done in an unselfish manner for him. Coöperation seems to be the most effective means of bringing about desired reforms.

The occasion for so much keen interest in marketing is plain to any one acquainted with farm marketing conditions. Few farms are so organized as to leave any considerable part of the farmer's time free for the consideration and work of marketing. The farmer is primarily a producer. He puts his time and energy into an effort to make

his acres and his animals produce. As to marketing, the rule has been that he takes what the most convenient method yields and satisfies himself with the belief that nothing better is available. However, with high prices of land, of labor, and of equipment, it is becoming more and more manifest that a farmer, to succeed, must market his produce more intelligently and efficiently. For example, it takes less energy to satisfy the easy requirements of a creamery than to satisfy those of the exacting city milk trade, but the one may yield twice the net returns received from the other. The creamery can be made more profitable through coöperative effort, and the city milk trade demands both coöperation and a high degree of business skill. Occasionally a farmer is found who can solve a large part of his market problems for himself. As a rule, they can be much more economically solved by groups of farmers working together.

Coöperation in Manufacturing.—The coöperation of farmers in manufacturing is almost exclusively an incident in the marketing process. Illustrations of this fact are abundant. For instance, farmers manufacture butter. They always have done so, and yet the only reason for it is that a marketable product may be obtained. From this standpoint it will be readily admitted that making farm butter is in no sense different from the other operations required in the dairy business. It is all a productive process, and manufacturing at home or at a creamery is a necessary preliminary to marketing. The establishment of a creamery is an instance of changing from a domestic to a factory, or industrial, system. Rarely, if ever, is manufacturing of this character, such as making butter, cheese, bacon, or canning vegetables or fruit, done on a coöperative basis from the standpoint of those performing the labor. The operatives are hired, and work for the coöperative owners is done on a wage basis. The outstanding distinction between manufacturing such as farmers carry on, and manufacturing in the general field designated by that term, is the difference in the source of the profits, or at least the allocation of the profits gained. The manufacturer carries

on his work for the sake of making money out of the operation. The farmers' coöperative company manufactures in order to make farm products salable, and after they are sold the returns are reckoned in terms of price per pound for butter, cheese, or whatever it may be, and not in terms of return on capital invested in the manufacturing business. For this reason the manufacturing done by farmers' companies may very properly be classed as a step in marketing.

Farmers' companies seldom go into manufacturing which requires heavy investment of capital or a great deal of diversified technical skill. It is easy to talk about the wide gap between the price of wool and the price of woolens, but there are a great many differences between the two besides the difference in price. Farmers may very properly contract for the making of blankets, and possibly for plain suitings, and so carry their purchases back close to the raw product, but this by no means suggests the feasibility of undertaking to manufacture the whole line of woolens wanted by the general trade.

When all is said with respect to the rather numerous instances of coöperative manufacturing, it must be admitted that most of it is of a simple character, capable of being carried on economically in close proximity to the farm. In many instances it is hardly more than the transfer of manufacturing operations of a purely domestic nature, such as butter making, to a convenient neighborhood center. The equipment for such manufacturing is inexpensive, and, more important still, the number of laborers needed in a given plant is small. Thus, until further developments indicate something to the contrary, it seems safe to say that coöperation is limited very clearly to a simple, though important, field within the sphere of manufacturing.

Coöperation in Transportation.—Not much headway has been made in this line, although it was begun by the Grange half a century ago, in the purchase of a few small steamboats. There is no reason to anticipate the ownership, operation, or control of the railroads by farmers. There is, however, one kind of transportation which seems

to have great possibilities of future development which may lend itself to coöperative action. This is the motor truck. Coöperative companies have been formed in the vicinity of several eastern cities by farmers who have produce requiring frequent and rapid transportation. This applies especially to dairy products and vegetables. There seems to be no inherent reason why a coöperative company should not be able to carry on work of this kind successfully.[1]

Coöperation in the Distribution of Goods.—The work of the coöperative store is essentially unlike the traffic in bulky farm goods. Of course, it is an instance of marketing, but not within the limited field of farm marketing as that term is ordinarily understood. The physical distribution of goods among farmers may be divided into two main parts: the retail work of the general store, and the sale of bulky articles, such as farm machinery, seeds, fencing material, twine, or the like.

The retail store has not thus far been a great success in America. It has succeeded better in Europe, but for the most part among townspeople rather than among farm people. The coöperative store flourishes among people who are willing to take some pains to save small sums. Where small sums are of less importance, the freedom of trading among the whole available list of competing stores is a privilege which appeals strongly to the average person, and thus makes coöperation difficult.

The coöperative distribution of bulky articles is meeting with much success. In some cases the work is handled by organized companies, in more instances by unorganized groups. Organized companies handle machinery, wholesale groceries, and such; unorganized groups are more often concerned with the purchase of feeds, fertilizers, and other supplies bought in considerable quantities at irregular intervals. The farmer is not in a position to do a retail business, neither does he, as a rule, make a good director, or even patron, of a retail establishment to which he is tied.

[1] Bulletin No. 1, *Firestone Ship by Truck Bureau.*

Coöperation Defined.—By coöperation is understood the working together of a number of persons for some common end. Literally, it may mean a working together in an unorganized way. For example, two farmers exchange work, or they unite their efforts in breaking the road after a snowstorm. These are unmistakable examples of coöperation. So also is it a kind of coöperation which brings men together in the processes of manufacture. One group of men digs the ore, another transports it, a third reduces and refines it, and so on to the final process. These men, however, are not members of a company in the management of which they have a voice. They are not doing the work for themselves. Their coöperation is on the basis of a contract, and their reward is a stipulated sum. In the case of the owners of the business, the return is in the form of interest, rent, or profits. In this form of organization the rewards are on the individualistic basis, and in proportion to labor performed, land owned, capital invested, or some business advantage. In the management of the business the voting strength of the proprietors is ordinarily in proportion to the capital stock owned by each.

In the coöperation with which we are here concerned the business is owned and run by a group among whom the rewards are apportioned, whether on the basis of capital contributed, business transacted, or labor performed. The distinguishing feature is the ownership of the business by the group engaged in its operation, not as wage earners or as investors, but as buyers, sellers, producers, or consumers, all on a par. In other words, the coöperators constitute a class, and are not representatives of several classes. For example, the group may consist of farmers who are either sellers or buyers, or both, or possibly of breeders of stock or grain; or, again, of manufacturers. In every case, however, they are banded together for the common purpose of doing for themselves jointly something which each separately could not do so economically, and which they do not choose to leave to an outside, or independent, agency. *Briefly, then, coöperation in agriculture means the organized working together of farmers, on a nonprofit basis, for the*

transaction of business. The essence of such a business is the common advantage of the group. It is a method of performing a work which, presumably, can be more economically performed by the interested parties than by the tradesmen outside the group, who are disposed to perform the service for gain to themselves. In genuine coöperation there are no true profits, but rather savings. The coöperative company may hope to eliminate profits such as a private company strives to get, but salaries and wages of managers and employees will have to be paid by any such company of considerable size. In some minor undertakings the work is done by members free of charge, thus eliminating both profits and interest rates; the increased price for produce, decreased price of supplies, or the more favorable rates on loans use up the surplus which otherwise might go into such dividends. In place of stock dividends there are frequently "trade dividends" paid, but trade dividends are in reality refunds rather than dividends, in the usual sense of the term. Presumably, coöperation is a method of taking some of the friction out of the processes of production, distribution, and exchange, and of bringing the coöperator more directly in touch with the markets in which he has business to transact.

This is the definition of coöperation that has reached the ideal, with respect to the financial arrangements among the group. Many students of coöperation cannot understand why all coöperation should not conform to this standard. Probably there is no good, satisfying reason for not doing so, but at the same time there are innumerable instances of farmer companies conforming quite closely to the coöperative prescription in many ways, which fail, nevertheless, to make a perfect showing on this point. Shall all of these be ruled out of the coöperative class? Before answering the question it may be well to examine a little more closely the circumstances surrounding such companies. Many of these companies antedate the passage of laws favoring the establishment of full-fledged coöperation, and with their habits fixed they are not easily persuaded to change to the better method. It must be admitted that many of these

companies, although not actually organized on the non-profit basis, are conforming very closely to the ideal of giving to each member that to which he is entitled. The spirit and the results are the main criteria by which a company should be judged, and a great number of farmers' companies have brought their practices up to a higher point of perfection than their articles of incorporation require. This subject will be touched upon again under the discussion of dividend payment.

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CHAPTER XXVI

THE COÖPERATIVE COMPANY: ITS PREREQUISITES AND CHARACTER

A coöperative company may resemble a private company so closely as to be well-nigh indistinguishable from it when superficially observed. A coöperative creamery, for instance, is not greatly unlike a private creamery, and indeed may be run on almost the same basis, with the exception of the way in which the butter-maker is paid. The members may have so little to do with the business as to be hardly conscious of their membership. Another company may be so run as to keep the coöperative features forever in the foreground. This is likely to be true of any company which makes a genuine success of its undertaking, and is especially prominent in such marketing as is done by fruit companies, or through federations. This is merely a way of saying that many coöperative companies are little more than nominal. They do but little that is coöperative. These help to swell the numbers of coöperative companies, and even the total amount of business transacted, but as factors in the solution of the marketing question they count for but little.

Prerequisites to Success in Coöperation.—A coöperative company, like any other, must adapt itself to the environment in which it is to operate. There is no magic in coöperation as such. The plan carries with itself no guaranty of ability to do better by its members than may be done by the more usual marketing organizations. Cooperation is simply a means of doing a piece of work through group action instead of letting each member of the group look out for himself in dealing with buyers or sellers. It is a method of carrying the produce of the farm a step, or several steps, farther toward the consumer, or in the case of buying, it means going a step, or several steps,

farther back toward the producer for goods. If this results in economy it is desirable, but it cannot be taken for granted that it will so result simply because the method of operation is to be classed as coöperative.

Some Object Must Be Sought.—In order that coöperation may have a genuine chance to succeed there must be a goal in sight, an objective to be attained. This might be interpreted to mean a grievance to overcome, in most instances, though in a minority of coöperative undertakings there is no other form of procedure to be displaced, and therefore no grievance, but rather a positive method of performing a service not otherwise to be performed at all. In all cases it should appear that there is something to be gained, which is merely another way of saying that cooperation is not a thing to be desired in itself simply because it has met with success somewhere else. Coöperation is a means to an end. In this discussion it is considered as a means for effecting marketing. It is justified to the extent that it provides a better means of marketing than is otherwise at hand. The purpose animating a coöperative movement must be tangible, not merely unfounded sentiment.

Born of Necessity.—It has been said over and over that successful agricultural coöperation grows, and must grow, out of dire necessity. Much has been so stimulated, and the stimulus is effective. However, there are a great many cases of successful coöperation that were not imperatively demanded as the only devices to prevent disaster. Beyond doubt, the leading fruit-marketing organizations of the country were the only known means of averting bankruptcy. On the other hand, coöperative creameries, even though a great improvement over the alternatives offered, cannot be said to make the whole difference between prosperity and ruin.

It is clear that coöperative companies must be formed where and when there is occasion for such enterprise, and not because some one thinks favorably of the principle in the abstract. There must be some visible reason for undertaking the organization if it is to succeed. If prices of products sold are ruinously low in the face of high prices

paid by consumers for the same product a little later, there is room to suspect that savings may be effected rather easily. If the town dealers are asking unusually wide margins on the business done, the farmers have a right to investigate the possibilities of doing business for themselves. But there must be some gain over the old method of each one looking out for himself, or the enthusiasm for coöperation is likely to suffer a collapse. In one case dire necessity may drive farmers to coöperate and so increase their sale price by 50 per cent; in another a moderate degree of necessity may result in a movement effecting a 10 per cent increase, and both may, and should, succeed. Cooperation has no magic by which it can feed and grow on nothing. Where prices are already as high or as low as the facts will warrant, coöperation cannot step in and change them.

It is, however, to be hoped that the intelligence and information of the American farmer are of such advancement that an opportunity to better his condition will be undertaken before a complete collapse of the business to which the coöperation is to be applied can take place. There are all degrees of success and failure, and, if success is at a moderate level, with a chance for betterment through coöperation, it would seem a sorry comment on the ability of those concerned to say that they must descend to the depths of adversity before starting on the road to improvement. In fact, there are excellent examples of successful coöperation which started out of moderate prosperity, not out of despair.

Sufficient Business a Necessity.—This might be taken for granted were it not for the fact that a great number of coöperative enterprises have failed because of a lack of sufficient business to make possible a profitable undertaking. A coöperative company is not unlike a private company in this regard, though the situation may not be so apparent to the men engaged in the coöperative enterprise. For example, very many coöperative creameries have failed because of a lack of sufficient milk or cream out of which to make butter. A privately owned creamery

under the same circumstances would experience the same difficulty. But a privately owned plant is not so likely to be established under such unfortunate circumstances. Some shrewd promoter is often able to persuade a group of people to do what none of them separately would undertake. The divided responsibility and the small value of the share are good talking points in getting men into companies, and often their knowledge is limited as to the amount of business needed or available. Many creameries have been organized in communities having but a hundred cows when at least four times that number are needed for success. Not only is the investment disproportionately large where the amount of business transacted is small, but it precludes the possibility of providing for the employment of good managers. Any business venture involves the question of the probable amount of available business, but a coöperative enterprise especially needs to be undertaken with caution in this regard, since no one man is shouldering the whole burden, and there is danger that too much dependence may be put upon the bare principle of association.

Confined to One Community.—There are instances to the contrary, but in the main it is safe to say that the prospects of success are much greater where the coöperators live sufficiently near together to permit frequent gatherings or, in any event, acquaintanceship. The great majority of the coöperative enterprises of Europe center in the village where the members are near neighbors and are intimately acquainted. In this country the greater proportion of successful coöperation is decidedly local in character; while the more general and widespread efforts, such as those tried by the Grange, show the greater difficulties involved in getting coöperation to work at long range and among men not well acquainted with one another. A good example of the working of this principle is seen in connection with the creamery industry, where cream or milk is brought together from inside a small circle within which neighbors are acquainted. In other sections, as in Nebraska, where farms are large and comparatively few

cows per farm are kept, the conditions do not seem favorable for the successful operation of coöperative creameries. Although many have been started, there are now only about half a dozen in the state. The area covered should not be too great to permit attendance at meetings and pretty close acquaintanceship.

While a local company of small size has certain strategic advantages, even to the extent of making the difference between failure and success, the disadvantages of wider territory are by no means conclusive against an undertaking. For instance, in Nebraska where the local coöperative creamery seems almost certainly doomed, there are several very promising coöperative centralizers in operation. The Danish bacon factories are spread over a territory corresponding to one of our counties, and the difficulties of the coöperative packing plants in this country are not those of scattered membership. Compactness of membership within a territory is a favorable condition, but as faith in coöperation progresses, as stability is reached, the dependence on this feature will be less direct. Good will and determination are of more importance than location. Federation is a force that will help greatly in overcoming the territorial difficulties, since it gives a feeling of solidarity. As members of a federation units which would otherwise be weak may become strong.

Stability of Population.—A prime essential is the character of the members, and nothing is more fatal than a rapid change of personnel. Illustrative of this point are the facts respecting coöperative movements and the question of tenancy and ownership. Rarely are tenants successful coöperators. They do not stay in one place long enough to become such. They do not feel disposed to put their energies and money into enterprises which must be abandoned on moving to a new neighborhood. In coöperative businesses there are always obstacles to be overcome, and in consequence there must be persistence in the group of men attempting the task. Persistence is not a trait found in people who, with respect to a given work, view themselves as transients. Hence tenants, who ordinarily re-

main on a given farm less than three years, seldom assist in solving marketing problems. On the contrary, being weak bargainers, they make the work of solution all the harder for others.

Character of Population.—It has often been said that men of different nationalities, or even of different religions, are not likely to coöperate well in one organization. Without doubt it would be unwise to advise men who are so poorly assimilated into the community life as to lack a common language to attempt to get together as coöperators. Likewise, it is doubtful if farmers widely apart in financial standing will blend harmoniously into a company involving a great deal of business adjustment. They may do well enough in a telephone company, even in a creamery, but hardly in a fruit-selling company. However, differences in nationality or religion seem to be of little importance. Men who have almost nothing in common socially will coöperate readily if only the economic motive is present and if results are forthcoming. Nothing short of race differences seems to act as a barrier. On the other hand, similarity in wants, views, and habits are advantageous. The point is that disadvantages in these respects are overcome by economic forces where the latter are at all strong. Intelligence and open-mindedness are of more importance than many of the more easily observed factors.

A Business Simple in Character.—It is to be taken for granted that the board of directors is to be made up of bona fide farmers who will actually direct the affairs of the association. To do this the directors must have a full and clear view of what is to be done. Without doubt farmers are capable of becoming directors in the most intricate business undertakings, but to do so usually means that they must devote the greater part of their time to such business, and turn over to others the operation of their farms. In farmers' coöperative undertakings it is desirable for the farmers to prosper in their own affairs, not to be drawn away from them. The businesses which they are to direct should, therefore, be simple, like the manufacture and sale of butter, the sale of grain, or the

purchase of feeds. The management of intricate manufacturing establishments or of complex transportation companies should not be undertaken. Nor should one company undertake several widely differing lines of work. One main purpose should dominate; subordinate things may be added, as shipping eggs through the creamery.

Vital Interests Involved.—It is evident from the facts of coöperation now in effect that farmers will coöperate in matters in which they are deeply interested, and will refuse or fail to coöperate in matters in which they have but a secondary interest. For example, the orange growers of California run a remarkably successful coöperative company. The dairy farmers of the upper Mississippi Valley have a great number of successful creameries and cheese factories. On the contrary, the farmers of the Middle West grow a great deal of fruit but they do not in many instances coöperate in its marketing. Likewise, the farmers of southern Iowa, of Missouri, and of Kansas milk many cows, but in these sections coöperative dairy organizations do not flourish. To be a good member of a coöperative company each individual must feel that his interests are those of the company and that its interests are his. Otherwise the coöperative company will be given but little attention. He must think in terms of the association. An apple grower knows apples and gets his living by selling them. It is of vital concern to him whether he gets $1 or $1.25 a box for his crop, while to the average Iowa or Illinois farmer the price of apples is of little moment. However, a margin of 5 cents a bushel on grain to them often makes the difference between profit and loss.

There are abundant exceptions to this general proposition, so far as mere numbers of associations go. For example, the coöperative telephones and the mutual insurance companies are numerous. These companies involve so little farm finance, however, that they can and are run without much attention from the average farmer. They are good things, but enter very little into the ups and downs of farming. Thus it might almost be said that the business which lends itself to coöperative action is either one in

which the farmer has the greatest concern, or one in which his concern is constant but very slight, and which can be run with little or no attention from the majority of farmers involved.

The Spirit of Coöperation.—Some men are unwilling to yield a point of difference with respect to anything affecting their own affairs. These men may succeed eminently when left to themselves; their ways, indeed, may be excellent and worthy of imitation; but they are not good men for a coöperative movement, since everything must go as they say or they are out of the game. Without doubt the traditions and experiences of American farm life have been such as to develop independence and self-reliance. These are excellent traits when not overdeveloped, but there is danger that independence may breed conceit, and that self-reliance may grow into a self-sufficient obstinacy.

The spirit of coöperation is not a matter that can be dealt with statistically. It is even hard to identify it in a community until it is well developed and the need for its identification mainly past. Is there a spirit of coöperation, latent, in a neighborhood in which a coöperative organization is proposed? The answer is always vital and often perplexing. Where race lines are rigidly drawn, coöperation has a difficulty to overcome. In fact, the history of farmers' organizations shows little mingling of races, yet with good leadership men of different races may be held together. Nationality, religion, and politics, though much less likely to interfere, do at times cause lines of cleavage unfavorable to coöperation. It is a case of relative strength. Where the economic motive is a powerful one, as in some of the fruit-growing districts where marketing becomes almost a matter of life and death, these obstacles are readily overcome, but where the margin of advantage is small, coöperation may easily be defeated by these counteracting influences.

It requires no argument to show that there must be an intelligent understanding of the object to be gained on the part of those making the effort. All too many agricultural coöperative movements have been launched by men who

desired strongly to get somewhere, but knew little or nothing of the proper route to follow. General intelligence is seldom lacking, but specific information often is. Where a coöperative company undertakes the marketing of a product there should be a clear understanding of the ins and outs of the market which it is proposed to enter, or perhaps to possess. It should have a clear picture of the marketing processes, should know what charges are made, and why. Unless there are wastes to be eliminated or excessive profits to be cut down, the probability of a happy outcome is small.

Leadership.—Leadership is of the utmost importance. Even though every man could do the work of a general, no army can act as a unit unless some one man actually is in charge and has authority. Likewise, there may be a score of men capable of acting as leaders of a coöperative company, but some man, or some small group of men, must actually become leaders or nothing will be done. Leadership is a rather rare quality; at any rate it is not superabundant as found in connection with new movements, and the man who wishes to do things will find the coöperative field rich in opportunity for constructive action. For reasons not hard to define, leadership in the field of big business is nearly always handsomely rewarded. In connection with farmers' movements leadership is usually poorly paid or unpaid. In almost all successful cooperative movements there will be found a faithful few, or perhaps a single individual, who, in season and out, give unstinted time and energy to the enterprise, with no hope or prospect of material reward. Without the inspiration of this kind of help few farm communities will arouse themselves. Without such unrewarded enthusiasts as F. W. Raiffeisen of the German Credit unions, or Sir Horace Plunkett of the Irish Agricultural Organization Society, or O. H. Kelly of the Grange, these movements could hardly have materialized.

Happily the coöperative movements of recent years are developing an appreciation of business talent, even though the equally important leadership required in getting a

coöperative movement under way is left mainly unrewarded. Business managers of some coöperative companies are paid as liberally as the managers of similar private enterprises, but, on an average, this is not the case. The outstanding instances of liberal payment of salaries by coöperative companies are found in the California Fruit Growers' Exchange and in the United Grain Growers, Ltd., of Canada, and in some of the very recent organizations. Leadership requires some adequate reward, and in the economic world it has to take an economic form.

Loyalty to the Association.—As a manifestation of the spirit of coöperation, loyalty to the organization should be conspicuous. No farmers' company can succeed without the loyal support of its members. Any partnership would be doomed at once were the members not loyal; a stock company needs the unwavering support of its stockholders; but the coöperative company, hardly less than the former and decidedly more than the latter, is dependent upon the temper of its members. The great majority of coöperative companies are dependent upon their members for the amount of business requisite to efficient operation. Where some of this is withdrawn it means less prosperity per unit for what remains. It must be remembered that coöperation means working together, and as soon as it becomes known that there is friction, the undertaking is at once discredited in the public mind. Harmony means strength. Minor differences must be subordinated to the common good.

The Coöperative Company

Composed of Farmers.—Many so-called farmers' associations are made up largely of non-farmers. This may be due to a desire on the part of the farmers to enlist the aid of any one and every one in the raising of capital. It may be due to the desire on the part of men not farmers to have a hand in the management of the business. Or the mere matter of investment in some coöperative enterprises as now organized furnishes an attraction, and where no rules bar the non-farmer, he comes in to get dividends. In

all cases it is a matter of grave doubt whether such outsiders should be allowed to connect themselves with the association. Where difficulty is experienced in raising the capital among the farmers the temptation to take it from any available source is great, and where farmers' rights are properly safeguarded this procedure may not prove dangerous. But safeguarded they must be, or these outside investors having interests unlike those of the farmer will become a force in twisting the course of the association in the direction of stock dividends instead of toward favorable results to each member on the basis of business furnished. Where outsiders want to get control there is but one thing to be done; they must be kept out.

Where, for example, a farmer member retires, and perhaps moves to town, the tendency is often to treat him still as a farmer and let him continue his membership. The danger in such a case may not be great, but the safest way is to keep the management, at least, and a great majority of the membership, within the active farmer class. If retired farmers can be of service to the association their assistance should be made available, but their authority should be restricted. Agricultural coöperation must be not only for farmers but by them.

Businesslike in Character.—No doubt any organization must be businesslike if it undertakes to do business with hope of success, but in this respect a coöperative company is in greater need of caution than is a private concern. The reason is that responsibility is unified in a private concern and diffused in a coöperative concern. A hundred farmers who belong to a coöperative company are not likely to spend more than two or three days a year attending its meetings and transacting its business. The directors are not likely to take quite the vital interest in the affairs of the company that is taken by railroad or bank directors in the affairs of their respective companies, since in the one case the investment is small and in the other case large, or the coöperative company may make but a modest return over what could be obtained otherwise. All these facts point to the necessity of a thoroughgoing business

plan for the guidance of a coöperative company, so that the members may at any time know how matters stand, and in order that those in charge may be held to a strict accounting for all they do.

Adequate System of Accounting.—There should be an adequate but simple system of accounting, such that expenses and investments may be taken care of in a regular and equitable manner. For instance, it is unbusinesslike and unfair to deduct from the price of butter fat for a given month or two a sum sufficient to buy a new vat or separator. Suppose, for example, a given patron were furnishing almost no milk at that particular time, he would escape payment of his proportion of the charge. Or suppose a given patron were furnishing the maximum amount for the year, he would pay more than his just proportion of the charge. Again, in case the equipment purchased is to be used for a period of years, the members of the company at the time of the purchase stand the expense, while those who succeed them get much of the value. It is clear that the only fair way to adjust these matters is to provide funds out of which the various expenditures may be made. Preferably closely related coöperative associations, such as a group of creameries or a group of fruit exchanges, should use the same system of accounting so that comparisons may easily be made, and that federations, if such be formed, may deal intelligently with individual associations with respect to audits or other authority which may be delegated to the central body.

Truly Coöperative Enterprise Democratic.—A truly coöperative company is essentially democratic. In this respect it is unlike the ordinary business organization in which one man, or a few men, may have complete control. It is even unlike the common type of corporation, where stockholders vote in proportion to the amount of stock held, and where, therefore, a few members may so outvote the majority as to render the control extremely undemocratic. A coöperative company which is not democratic is not, in a real sense, coöperative, although it may be such in form. Coöperation means a working together of

men for the accomplishment of some object to the advantage of all. Should the control fall into the hands of a few, this mutual relationship would be sure to suffer, and the interest of those holding the power becomes the criterion by which all policies will be shaped.

This brings us to the "one-man-one-vote" principle, usually put forward as the one thing needful in coöperation. Under most circumstances the plan is to be commended, although not all states provide for such restrictions in the government of corporations, coöperative or otherwise. In any state, however, it is permissible to limit the number of shares which one stockholder may own, or at least the number which he may vote. In this way it may be made difficult, if not impossible, for a clique to get control of a company. For example, it is the usual thing to provide that not over one tenth of all outstanding stock may be owned by any one man, in which case no one man, or small group of men, is likely to get control of a majority of the stock. Of course the limitation of the vote to one for each man is the greatest possible safeguard against concentration of power.

Under some circumstances the "one-man-one-vote" may prove to be a too rigid safeguard. Where the interests of the members are nearly identical, or equal, there would seem to be no good reason why each man should not have an equal voice in the control of policies. But where the members have widely varying interests at stake it is often hard to get those whose interests are greatest to agree to the "one-man-one-vote" plan. It may happen that one member has ten acres of strawberries and relies on strawberry sales almost exclusively for his income. Another man may have a tenth of an acre and get an insignificant part of his income from the sale of such fruit. It is not likely that the big grower will take kindly to the proposition of giving the small grower the same voice as he has in the marketing policies. And it hardly seems reasonable that the two should be put on an equal basis with respect to authority in control. In fact, the wisdom of a union of large and small producers in the same company is often

questioned. Yet if the interests of the big producers are not jeopardized by the irresponsibility, stubbornness, or jealousy of the small producers, there is nothing to be said against such an arrangement. It is even possible for the small producer to profit by the better business methods of the large producer, if only the two classes can get along smoothly together. In Europe, where the "one-man-one-vote" predominates, in nearly all cases there is a tendency toward segregation of large and small producers.

One way of bringing the large and small producers together is to permit voting in proportion to business furnished. This may be accomplished by giving members of a coöperative creamery a vote for each cow, or members of a fruit exchange, where the fruit is similar in kind, a vote for each acre. This plan gives each member an influence corresponding to the interest he has at stake, and while a single small producer might seem to be swallowed up by his large neighbors, a group of them would always be able to compel recognition. Moreover, the danger of a few men gaining full control, as in the case of voting by shares of stock is, in most instances, obviated. This method is, as a rule, not held in high esteem by leaders in coöperation.

The Association and Its Authority.—Many a farmers' organization has gone to pieces because of the disloyal, shortsighted actions of certain of its members. One of the most frequent sources of trouble of this character is the tendency of many members to sell to competing companies for, perhaps, a trifle more that the farmers' company sees fit to offer. This difficulty has led many associations to put into their by-laws the so-called "penalty clause." This is a provision by which the members of the company are permitted to sell or buy where they please, upon payment of a small amount, as a half cent a bushel on grain to their own company to enable it to exist while the business which it might normally expect is being done by its competitor. The "penalty clause," or "sustaining clause," as it is sometimes called, has been declared illegal by some of the courts and consequently in many instances, has become a dead letter. It is not a prominent, or even a usual, part

of most coöperative companies, although in a modified form it is coming into use under the direction of the American Farm Bureau Federation. The point is usually gained by requiring the members of an association to sign an agreement to deliver all of their produce of the kind in question to the company to which they belong. The penalty for failure to comply with this provision is usually loss of membership in the company. If the advantages of the company are of any importance it follows that they will not be bartered away for a small mess of pottage, in the form of a bid slightly higher, offered by a competitor. Just as truly as there are rules of the game to be followed in almost every organized undertaking, there must be such in connection with farmers' organizations, and he who will not observe the rules does not deserve the privileges of the play.

One of the most distinctive features of the eminently successful companies of California, the companies handling the citrus fruit, the prunes and apricots, the raisins, the walnuts, is the contract whereby the growers obligate themselves to deliver the entire output, with certain exceptions, to the coöperative company. The same idea is becoming one of the fundamentals of the American Farm Bureau Federation in all of the coöperation established under their jurisdiction. Where each grower has, individually, signed a contract to deliver his produce during a period of years to the company, the legal question involved is presumably taken care of.

One of the main advantages of a coöperative company is, or at least should be, an assured patronage. The company must be able to count on the patronage of its members or it may better quit.

Transfer of Shares.—In an ordinary corporation shares are freely transferable. This is, in fact, one of the distinctive and desirable features of the corporation form of business organization. In a coöperative company, however, this freedom of transfer is frequently curtailed in order that no undesirable members may be taken into camp. The success of a farmers' company depends very

largely on the stability and loyalty of its members; therefore, the group should be allowed to control its own personnel. Were each member permitted to sell out to whomsoever he pleased, this would obviously be impossible. While the law would not sustain any company in putting severe limits on the right of a member to sell his shares, it seems to be permissible to require that the company be given the opportunity to make the sale for a member, or to buy the shares and hold them for subsequent disposal. It is a prevalent practice to require members wishing to dispose of stock to list it with the secretary for sale, allowing him perhaps sixty days in which to act. Should no sale be made during that time, the owner would then have the right to sell to any buyer whom he could find.

Sufficient Capital.—Farmers' associations need capital just as every other business organization needs it, but in many instances farmers have gone into business coöperatively with insufficient capital. After making a start with too little capital they find it especially hard to increase the amount, since the situation, under these circumstances, is a discouraging one. Hence the advisability of properly financing the project at the outset. This is all the more desirable since there is frequently a great amount of skepticism concerning the success of farmers' undertakings.

A farmers' company has no excuse for going into a business venture with too little capital. Ordinarily the amount required from each farmer who goes into a coöperative undertaking is only from $10 to $100. And in case he does not have the ready money, he can, as a rule, borrow it. A note of this kind may be paid in a lump sum, or it may be paid gradually by withholding a small part of the price of produce sold through the company. Another plan is to apply the trade dividend, where such is paid at all, to the discharge of the note. In this way the amount put into capital is scarcely felt, since it is accumulated out of savings.

Another way to provide capital is for the association to borrow it. An organization of farmers should be, and usually is, able to borrow on fairly favorable terms and

for as long a time as is desired. In some instances in Europe borrowing in this way is the means used to provide permanently a large share of the requisite capital. This is advantageous when the farmers are in debt anyway, and especially when there is a considerable variation in the amount of money needed at different times of the year. However, the moral effect of independence and business solidity is such that it will be the part of wisdom to have the sum needed as a permanent investment not only subscribed, but, within a relatively short time, actually paid in, while a small surplus gives added confidence and dignity to the project. Since a farmers' company cannot afford to run without ample capital, the members will be fortunate if they make their arrangements so that borrowing will be incidental and not the main foundation of the business. However, for sums not needed continuously, a good plan is to have an arrangement at a bank so that drafts coming in against the company will be taken care of without being entered as overdrafts. This gives the minimum amount of expense in providing working capital.

Cash Basis.—It has often been said that a coöperative company should do a cash business only. To begin with, it may be noticed that the great majority of the important coöperative companies of this country are engaged primarily in selling farmers' produce. With these the question of cash or credit is not vital. In the case of companies doing a considerable business in selling to farmers it is quite different. Farmers like the privilege of credit whether they are dealing with a private company or with a coöperative company. Many coöperative companies seem to get along well on the credit basis, but it is, nevertheless, a dangerous plaything. It is more dangerous for a group of farmers to get involved with credit accounts among themselves than to have such relations with a private company. There is less vigor on the part of a farmers' company in forcing payments when they really ought to be made than is the case with a private concern. Farmers need to be taught the economy of cash payments, and it is poor policy to put themselves in a bad light with one

another and their outside friends by running a coöperative company on a basis which they cannot well control.

Membership Not Exclusive.—A genuine coöperative company does not exist for the purpose of making money out of other farmers who patronize it, nor for the purpose of limiting production in order to raise prices to an abnormal level. It is for the purpose of encouraging production and reducing the costs of marketing. Hence there must be a disposition to admit to membership all who logically belong to the group. Of course the judgment of those already in must be exercised in the admission of others. It is always unfortunate to include mischief makers; it is similarly unfortunate to admit drones. But no fellow farmers should be excluded on the basis of the "closed-shop" idea. Where such a policy is practiced the law forbidding combination in restraint of trade may very properly be invoked against it. Farmers have as much right as, and no more right than, other people to form a trust.

A Competent Manager Necessary.—It may almost be said that the members of a coöperative company do not coöperate among themselves, but each one coöperates with the manager. Certain it is that the members meet the manager in a business way many times to every once that they meet the other members in this way. It is conceded that in successful coöperation the manager must actually manage. It is impossible for him to be merely the representative of the board of directors. General policies should be formulated by the directors, but all matters of detail, the grading of the product, the judgment as to the condition of the market, the amount of labor to be employed, the necessity for more equipment—all of these must be left mainly to the judgment of the manager. If a given manager cannot be trusted with such responsibilities it means that it is time to look for his successor.

During the early period of coöperative efforts in America few farmers appreciated the value of good business management. They were unwilling to pay what a good manager was worth. Their complaint was that the share going to the middleman was exorbitant. They did not propose,

therefore, to make the mistake of overpaying the man they themselves installed in the place of the middleman. The result was inevitable. They secured incompetent men to manage their business, and the business not being well managed failed. At the present time most of the farmers' companies are in the hands of well-paid managers, and are conducted in a businesslike way. It is as necessary to pay the market price for managerial ability in connection with a farmers' company as with a private company. All the lines of coöperative force focus in the manager, and if this force is there dissipated all is lost. On the other hand, even though some of these lines in themselves be weak, if centered in a strong manager, they may be so reënforced as to present all the evidence of strength. A good manager is the indispensable requisite of success in coöperation.

One reason why farmers' companies are not more uniformly successful is that no one man is likely, as is the case in a private business, to put his whole energy into it. The manager of a farmers' company has a difficult position to fill. He must please many people, yet he usually has all too little authority over them with regard to the conditions necessary to success. All other desired conditions may be wanting but with a good manager success may be gained, while with a poor manager even the most favorable conditions will not save from failure.

Where shall the all-important good manager be found? As a rule, it is wise to take him from the ranks corresponding to the work he will have to perform. For an elevator manager, take a man from the trade of grain handlers; for a cheese manager, take a cheese dealer; for a banker, take a man familiar with banking from the inside. This means that if coöperative farming is to be tried take a farmer for manager, but if the work is quite unlike farming it is wise to find a man familiar with it, whether he is a farmer or not.

The Federation of Coöperative Companies.—One great weakness of the coöperative company is its limitation to one little spot when the economies of the business demand a wider scope of activity. For example, independent com-

panies of many descriptions have found it advantageous to unite into unions or federations in very many instances. This has been done, as a rule, to eliminate unnecessary costs, such as duplication of marketing expenses. Coöperative companies in this country have been slow to form such federations. There are, however, a few notable examples. The largest and best known one is the California Fruit Growers' Exchange, which is made up of district and local companies. The Wisconsin Cheese Federation has met with success, and recently has been undergoing a great expansion.

The American Farm Bureau Federation is undertaking the federation of all the leading lines of coöperative companies in the country, including, in the main, operations in connection with the marketing of grain, live stock, fruit, and cotton. The success of these federations, or their lack of success, will measure the virility of the farmers. The small local company succeeds, but its success is circumscribed. The local saving may indeed be the greatest obtainable, but whether it is or not, can never really be known for a certainty until a more ambitious and comprehensive marketing plan has been given a trial.

Not only can a federation hope to improve further the marketing facilities of the local companies, but it can be of great service in furnishing information and inspiration to the locals. It probably could keep adequate and uniform accounts, and thus render one of the greatest of services. This would lead naturally to the question of audits, and no other authority is in so good a position to audit the accounts of the local companies as would be a federation of such companies. For putting life into the coöperative movement, a federation or association of local units is unquestionably of prime importance.

A group of unfederated companies is almost sure to compete within itself. This has been notably true in the creamery and cheese factory business. The local companies have invaded one another's territory for trade and have competed with one another in selling. Altogether they have, with all their good qualities, presented a weak

front, if any front at all, to the serious problems of marketing. They have taken one step, and taken it well. It remains to take a few more steps, not with the prospect of going the whole way and eliminating all middlemen between farmer and consumer, but of getting into the wholesale market with intelligence, concerted action, and vigor, in such a manner as to secure for the producer as large a share as possible of the prices paid by consumers for his product. Unsystematic, free-for-all competition is no more reasonable or profitable in the marketing of farm produce than in other lines of business where it has so often been shown to be illogical and wasteful.

The main purpose of a federation is, by no means, an attack on middlemen, but rather the introduction of intelligent business methods into the work of buying and selling. This will frequently mean economy due to large purchases, to consolidated shipments, to lower overhead charges in such matters as office work and solicitation, to the handling of surplus commodities, to the finding of markets, to the settling of disputes. Above all, a federation can be known, can have plans, and can command respect where local units are obscure and helpless. The federation of butter factories in Denmark, of purchasing societies in France, of credit companies in Germany, of fruit companies in California, of cheese factories in Wisconsin, all show the value of working and standing together, while the weakness of the unconnected local is everywhere manifest.

The Rochdale Plan of Coöperation.—The principles laid down by the Rochdale Pioneers, while made primarily for distributing companies, are in point in all coöperative undertakings, and form the basis of the best that is found in coöperation the world over. They have stood the test of three quarters of a century. The leading features are:

1. Shares small in amount and held by members only, that is, by coöperators and not investors.
2. Each member to have not to exceed a certain restricted number of shares.
3. Each shareholder to have one vote and one only.

4. Sales to be for cash, and at usual prevailing prices.
5. Stock to receive a nominal dividend corresponding to interest rates.
6. Profits to be apportioned in the form of trade dividends on the basis of the amount of business furnished by each member. Nonmembers to receive a trade dividend half as great as that paid to members, and this payment to be in the form of a share of stock, thus making all customers, so far as they wish, automatically into members.

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CHAPTER XXVII

THE GRAIN MARKETING REFORMS

While the purpose of this book is to give an outline discussion of the principles of marketing and not a description of marketing processes, it seems necessary to introduce more or less description in this and the following chapters as subject matter around which the principles, less tangible, group themselves.

Mention was made in passing, of the attempts to establish coöperative elevators in the days of the Grange, and later by the Alliance. The occasion for starting these organizations was not very specific, but rather the general belief that any business handled through middlemen was uneconomically done, and that coöperation was, in itself, a principle on which to rely. Nearly all the grain elevators established by the early farmer organizations in one way or another went out of existence. Most of them lost their coöperative features without really failing financially. As a matter of fact, they were not coöperative in a real sense. The stock was held generally by a few farmers, but was not widely distributed, and voting was on the share basis. Thus, it was an easy matter to concentrate the holdings and put the elevator back into the list of ordinary private concerns. A few survived. One, which had been started at Rockwell, Iowa, in 1889 by the Alliance, was an outstanding success. It was this organization which furnished the immediate inspiration and pattern for the coöperative-elevator movement which began in 1902 and is still in progress.

The Cause of the Movement.—During something like twenty years preceding 1902 there had grown up in the grain business a large number of big companies known as line elevators. These were companies with headquarters usually at the central grain markets, where they had, as a

rule, one or more terminal elevators. Extending out along the lines of railroads through the grain districts, these companies had local elevators, numbering from a few to a few hundred per company. Some of the same sort are still in existence, but they are no longer conspicuous. Whatever may have been the facts of the case, the arrangement looked to the farmers like a real monopoly. There were competing elevators, or at least other elevators, at nearly all railway stations. In Iowa, Minnesota, and the Dakotas, it was nothing unusual to see four or five small elevators clustered around a side track or two in a mere hamlet.

No matter how many elevators there were in a town, the representative of the line company was likely to dominate. The farmers came to believe that the dice were loaded and that no matter what the show of fairness might be back of it all matters had been prearranged. Specifically, fault was found with the weight of grain. Not necessarily that cheating in the way of underweighing was prevalent, but it was felt that the habits of the trade had become corrupt. It was customary to call fifty pounds of barley a bushel, whereas in nearly all states a bushel was defined as forty-eight pounds. Likewise, oats were bought on the basis of thirty-three instead of thirty-two pounds; corn was bought on different weights at different times of year. But it took several months to arrive at the legal point. The grain buyers insisted that the case was as broad as it was long. If they paid a certain sum for fifty pounds of barley, it meant that competition for that quantity set the price, and that, should they bid on a forty-eight-pound bushel, it would amount to the same pay per pound in the end. Very well then, said the farmer, why not concede the point and buy a legal bushel? But they did not do so, and the farmer continued to believe that he was beaten out of 4 per cent of his grain.

A matter that worried the farmer still more was the question of grades. The elevators bought a great deal of low-grade grain, but when they came to sell it the grade had in some mysterious manner risen. That the grain had

actually been improved by cleaning, drying, and mixing might be explained at any length, but the farmer still believed that he had actually sold No. 2 at a No. 3 price and that in the hands of the line elevator it promptly recovered its real identity.

As to price, there was hardly as much complaint directly. The feeling was that on the face of it the price seemed fair but the dockage, which was nearly universal, was doubly wrong. For example, a farmer would be docked because there was barley in wheat, but surely the barley screened out of the wheat had a value. Again he would be docked for wheat in barley, though the dockage was worth more per pound than the main grain. It was of no use to explain to the farmer that the market was on a square footing. He was convinced to the contrary, and was determined to take a hand in it himself.

Resistance Met.—The farmers in the elevator movement had nothing resembling clear sailing. On the contrary, they were opposed at every turn. Their first troubles came in the effort to obtain an elevator. There were none for sale. They decided to build, and almost uniformly they were told by the railroad company, on whose land elevators are nearly always built, that there were already buildings enough of this kind. No doubt there were, but the railroads had not been in the habit of making such decisions before. A law promptly passed in Nebraska set the matter right, and the trouble was over. After the local arrangements were settled, the next concern was connections at the central markets. Trouble there had not been anticipated, but it was forthcoming. The commission men in the grain business dealt only with "regular" country houses, and the farmers were distinctly "not regular." For a time it looked as though no one in Chicago would handle farmer-company grain, but first one and then another broke over the rules, wisely thinking it might pay better to stand well with the new movement than to deal with the rest of the commission firms. Soon there was an eagerness for farmer-elevator trade.

For a while it looked as though the railroads would

prove a big factor in helping the line elevators. Cars were abundant for the big companies but scarce for farmer companies. However, the case could not stand an airing before the Interstate Commerce Commission and soon was on a satisfactory basis. Thus, one thing after another that seemed formidable was overcome, and within a very few years the farmers' elevator movement was a recognized institution.

Success.—The elevators which had numbered but a few hundred during the first three or four years reached three thousand within fifteen years. The real explanation of their success was their ability to do business on a narrower margin than could be accepted by their competitors. The farmers' companies have an average membership of somewhat over a hundred. Let a hundred farmers, the leading grain growers of the vicinity, unite in an organization of their own at a country shipping point and the chances are that the competitors will soon be ready to try something else. As a rule, the farmers' elevator, no matter how many others there may happen to be at the same shipping point, gets half, or more, of the business. The farmers are not dependent for a living on a margin above cost of doing business as are independent shippers, and so all savings go into an increase in price. It was found that competent managers could be had at modest salaries, and, to the dismay of the independents, it soon developed that the farmer companies had come to stay. For years they have been the biggest factor in the local business of shipping grain from the leading grain districts of the country.

One of the main lessons learned is the economy of the larger business. The elevator handling one hundred thousand bushels of grain has nearly the same amount of overhead expense as one handling from three to five times as much. For example, it was found by inquiry a few years ago that the cost of putting wheat through an elevator handling fifty thousand bushels was over 7 cents a bushel, while in a company handling one hundred and fifty thousand bushels it was under 4 cents. One authority goes as far as to say that the cost of operating an

elevator is practically fixed, increasing but very little with the amount of business done.[1] To the extent that this is true, the advantage is of course overwhelmingly with the company that can handle a big volume. The claim is usually made that the coöperative elevator has resulted in a saving of from 3 to 5 cents a bushel on grain of all kinds. Of course this must vary greatly with the price, and there is no way of making an exact measurement, but at all events they have made a sufficient saving to keep them safely in business.

Expansion into Allied Lines.—Most of the country elevators handle at least a few things besides grain; many of them deal in goods which the farmer has to buy. Among these may be mentioned twine, salt, lime, tile; a smaller number handle coal; and a still smaller number, lumber. A few have expanded into general merchandise. While important savings have been effected on these miscellaneous undertakings, the main consideration has been the grain.

The Canadian Grain Growers.—In many respects similar, yet in other ways quite in contrast, is the history of the coöperative grain business of Canada. The cause of the movement was not altogether unlike that of this country, but the first attempts at a solution were quite different. For example, in Manitoba the provincial government was persuaded to build elevators for the handling of the farmers' grain. These ventures were ill-starred. It is reported that the man who superintended the location of them was willing they should fail, and so put them in places where they were not needed. In Saskatchewan a different sort of help worked out better. The province loaned to farmers, on twenty years' time, eighty-five per cent of the money needed for the building of a country elevator.

An organization of farmers in Manitoba took over a large part of the government-owned elevators and developed a grain-selling agency in Winnipeg. In 1917 this company, which had made a remarkable growth, united with a similar company which had grown up in Alberta,

[1] U. S. Department of Agriculture, Bulletin 558, p. 34.

making the United Grain Growers, Ltd. This company, together with a similar one in Saskatchewan, is marketing around a third of the wheat grown in Canada, with well-matured plans for expansion to include the major part of it. One of its strongest features is its method of finance. The new company is capitalized at $5,000,000, with over $3,000,000 paid in. Subtracting $1,000,000 of indebtedness leaves $2,000,000 on which to do business. This capital, together with an accumulated surplus, enables the company to handle a large volume of business in an efficient manner. The capital is not adequate in itself, but the company owns a considerable amount of bank stock, and has such standing at the various banks as to be able to borrow large sums when necessary.

It is interesting to note that the United Grain Growers, Ltd., has a seat on the Winnipeg and Chicago boards of trade, and makes free use of the market in futures. Also that it is the opinion of the leaders of this company that the boards are needed, and that future dealings are indispensable.

The most striking things about the United Grain Growers, Ltd., are their arrangements whereby the central company runs the local elevator and employs the manager, their dominant position on the Winnipeg Grain Exchange, their ownership and management of terminal elevators, and their successful entrance into the export business. Aside from these features which pertain to the grain trade, they do a great deal of business in furnishing the more bulky farmers' supplies, such as twine, machinery, and fencing material. They own a great tract of uncut timber, and are operating a lumber mill. They also operate a small flour mill for experimental purposes in order to acquaint themselves with the milling value of wheat. They handle live stock, and incidentally conduct a land-selling department. In successful coöperation this company has few equals. It reaches through the entire length of the market from the farm to the miller or other wholesale buyer. Out of the experience gained the officers of the company testify that the greatest savings are made at the home elevator, and in

the export trade, so far as handling grain is concerned. The savings on the board-of-trade operations have been found less than were anticipated.

The Lack of Complete Success among American Co-operative Elevators.—While the coöperative elevators of this country have succeeded, they have not succeeded much beyond the economy of handling grain at the country point. This is itself unfortunate, although the measure of success achieved is genuine and great enough to be worth the effort. On the other hand, the local company alone and unaided is subject to all manner of temptations by way of connections which may rob it of some of its independence. This is incidental, though it may prove serious. The real trouble is that the local, alone and unaided, has no means of defending itself against the ups and downs of the market, or of taking advantage of conditions outside of the one or two central markets to which it happens to be tributary. In fact, it cannot take advantage of many opportunities of the nearest central market. The local elevator has made a good record. It has justified itself over and over, but having accomplished one good piece of work, it has rested quite content with the results for the greater part of two decades. There are many other things to be done. One of the troubles with the local elevator in many places was for years that it was not fully coöperative. Twenty years ago no state had laws providing for the incorporation of coöperative companies. As a result, the early companies were, for the most part, simply small farmer-owned stock companies with more or less provision for coöperative action. They often boasted of paying dividends of fifty or one hundred per cent, although it was a clear case that this meant merely the gain of one farmer at the expense of his neighbor. After some years the patronage-dividend idea became prevalent, and the practice general.

The local elevator has no means of making so much as a start at the desirable plan of feeding the market. Each farmer is left to his own devices with respect to credit, and the flooding of the market in the early months of the year

causes a price depression. It is not forgotten that in an earlier chapter it was pointed out that the gain in holding wheat, for example, from fall till spring is small. This does not mean, for a moment, that a comprehensive sales agency could not, from day to day and from season to season, feed the market with the sort of grain and the amount needed, and thereby keep the price steadier. Moreover, it is freely admitted that the "hospital" elevators are big dividend makers for the companies that own them. If this is so, it is surely within the province of the farmers' right and within the possibilities of coöperation to do this work for the farmers. Not that it is a simple matter. The grade of the grain before the treatment must be determined, and the relative value of it in the mixture obtained must be estimated. As it now stands, all the local elevator does is to put the grain through the home market at a lower cost than the commercial trade was doing, and beyond that coöperation ceases. This is not a condemnation. Quite the contrary. It is an acknowledgment of a great accomplishment. The chances are that the next step will accomplish less, but, even so, it ought to be taken on the basis of reasonable hopes, and it may prove more important than can now be predicted.

The United States Grain Growers, Inc.—This is a new company formed under the inspiration of the American Farm Bureau Federation. The plan, in the main, is to establish a sales association, national in scope, which shall, through the local elevators, contract with the farmers for the handling of all the grain they have for sale. The grain may be disposed of in two different ways. First, the farmer may sell to the local elevator just as he has been doing in the past, the elevator doing the best it can in paying market price and making a profit which shall later be prorated back to the farmers as a trade dividend. The second plan is the pool, which is the distinctive feature of the new arrangement. Farmers who are not satisfied with the price at the time of delivery may enter their grain in a pool. In order to do this the grade must be determined. The local elevator may store the grain if it has room, or if desired it

may ship it to a terminal controlled by the national sales agency. In either case, the local authority decides when the pool shall be sold. Advances of perhaps from fifty to seventy-five per cent of the value of the grain put into a pool may be paid to the grower. To provide funds for this the sales association will make advances on the security of warehouse certificates.

Unless it should prove to be illegal, pools of a wider extent will be permitted by several local companies acting through the national sales association. In this case the pool will be managed by the national sales association, the time of sale to be determined by this company.

The national sales association acts, for the most part, like a commission house. It receives grain, sells it, or, on request, stores it. Certain pools are managed by it. During the initial stages the national sales association may not handle a great deal of grain, except as a commission house. If it succeeds, the prospect is that it will within a few years handle a large share of the grain of the whole country. Whether this is to be done as a commission house passing the grain along without delay, remains to be determined. The decision lies primarily with the farmers themselves. If pooling becomes the order of the day it will develop that the farmers' companies as a group will have under their control great quantities of grain. Should pooling not become important the amount controlled will be distinctly less, and speculators will still be needed.

The plans contemplate the organization of a finance company, a terminal warehouse association, and an export corporation. This will mean the completion of connections between the grain grower and the grain users, whether in this country or in foreign countries. It will mean that the grain grower may choose whether he will sell in September or in May, and he will be able to take care of his finances in the interim if he chooses the later period. All of the physical equipment now used in marketing grain may be used under the contemplated system. Much interest centers in the relation of the new plans to the speculative machinery of the market.

Stabilizing Prices.—One of the first claims made for the new plan is that it will introduce order into the movement of grain to market. This will come about primarily through the changed attitude and position of the farmer. Then the national sales association will have control of certain quantities of grain if the pooling plan works out fully, and in any case it will be in a strategic position with respect to influence over the movement of grain, not only to our own markets, but for export. Inevitably millers and other users of grain will turn to the company occupying such a key position. Just as surely as this occurs there will be more certainty of getting grain when and where it is wanted, and a faith will develop with reference to the future. The national sales association will know, as no other company has ever known, what it can do in furnishing grain from time to time. It will know the supply, and regulate the movement. Thus, if a million bushels of grain are wanted in Chicago during a single day it can offer that amount and not have it appear to the buyers that two millions are available. While the association will not own this grain, it will know where it is, and how much may be offered at a given price. This has to do with cash offerings, but if cash sales can be put on a more stable basis, it will be a great step toward stability in general. The cash prices during the eventful year 1920–1921 have been as unstable as the future prices, and there is good reason to believe that future prices have at times followed, as well as led, the cash bidding. If the national sales association can succeed in making itself the leading influence in the selling of cash grain, the sphere of the speculator is going to be narrowed. To what extent this will be true no one can predict with certainty. No doubt the case is being overstated by its friends, but be that as it may, a giant company with its fingers on the trade levers is going to cut more than a nominal figure in the control of the machine.

The new organization can at least approximate the ideal of feeding the market. That this will have a salutary influence on prices, is not open to question. Such a plan should take the violent fluctuations from day to day, and

even from hour to hour, out of the market. That it will be able to do with a commodity like wheat what is done with walnuts and raisins is unlikely. To hope for a similar control means disappointment. To begin with, the demand for wheat is less elastic than the demand for raisins, and the supply is subject to wide fluctuations.

One important factor making for stability of prices is information, and in this the new organization should be able to exert a great influence. To begin with, it should have a valuable amount of information coming to it incidentally. It is unlikely that this will in any way supplant the government crop reports. Rather, it should supplement and aid them. In a large way a comprehensive farmers' marketing company should exert its influence in reporting world crops and thus assist in bringing order out of chaos. There is now the nucleus of an efficient system at Rome in the International Institute of Agriculture. However, as a clearing house for current crop statistics it has not yet reached a great degree of perfection. Properly functioning, it would supply information which would take the place of rumors, uncertainties, and malicious misinformation, with the bulk of the crop of the greatest grain-producing country passing through its hands; and with information concerning the crops of other countries, the new organization would unconsciously act as a steadying influence in price. Besides, it would be in a position to do whatever the circumstances required to bring about still greater stability. It may not be out of place to remark that rather too much has been said in recent years about stability, as though it could not be carried too far. While stability is a good feature in a market, it must not be forgotten that the price should, nevertheless, reflect the situation with respect to demand and supply, and a rigidly stable price would fail to do so. What is wanted is a flexible, sensitive price, which, however, is held to a level corresponding to the forces which it undertakes to balance. This means a reasonable degree of stability, but does not mean a dead level for any long period of time.

Is Pooling Speculating?—The answer depends on the character and intent of the pool. As it is practiced in connection with the selling of citrus fruit, it is quite the opposite. There pooling is an incident in the movement of goods to market, whereby the several owners are assured the same treatment and returns corresponding to their contributions of produce to the pool, thus obviating speculation. Where, on the other hand, the pool is a device by which the farmers club together for the purpose of holding grain for future sale, there is, of course, an element of speculation involved. This is not speculation such as is meant in the usual discussion of that subject. It is speculation within the necessary and desirable field of holding produce for future use. The professional speculator will contend that that is what he is doing, since both he and the farmers in the pool are alike holding for a higher price. This is true, and up to the present time the producers have so acted as to compel the development of a middleman speculator. Now that the speculator is operating and is doing the thing which he or some one else must do, both grower and consumer view him as one might view a tiger kitten which was obtained in the hope of enjoying its company but in maturity developed qualities not anticipated. The speculator is needed at present, but he is not praised. If the pooling system develops to a sufficient extent, the farmers will themselves assume the speculator function, but without the dangers involved in the ordinary work of speculation. Should pooling take place on a large scale, and the management of it be left in the hands of a small board, no matter how elected, the dissatisfaction when things go against expectations will be deep and formidable. Should it be confined to a small group, and especially should the interested parties get together whenever a point is to be decided, and make the decision, the larger group has nothing to fear. If pooling displeases certain ones, they can stay out next time. To sum up, it must be admitted that, while pooling takes out a certain amount of speculation when applied to current marketing, it is a means of permitting the grower to speculate, in

a perfectly desirable way so far as the public is concerned, when it is applied to holding produce over long periods.

The New Plan and the Grain Exchanges.—The question is asked whether or not the United States Grain Growers, Inc., will want a seat on grain exchanges. At first they may well wish to get into the center of the operations, and a seat will help in doing so. As they succeed in handling the bulk of the grain according to the program, this will become an inconspicuous incident. The grain exchanges will be their agents. Just what exchanges will be their agents is another point, but "where McGregor sits there is the head of the table," and where the new company does business will be the leading grain exchange. Should they fail to succeed in a large way, yet handle much grain, they will, judging from experience, do better inside than outside the exchanges of the country.

The Hope of Savings.—Inside or outside the exchanges, the new movement should be able to lessen, to some extent, the number of middlemen between producer and consumer, and so effect a saving. To the extent that this hope is realized it will be largely through the economy of doing business in the manner mapped out by the successful business houses of the age. That is to say, it will be the result of the economy of the big unit as opposed to the small. Sentimentally, the little man stands high in the community. From the standpoint of general welfare, the man or company of large capacity and efficient management is the one to be emulated. The farmers are trying desperately to establish a big business of their own, and under honest management, it is greatly to be desired.

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CHAPTER XXVIII

THE CONTROL OF THE LIVE-STOCK MARKET

It may be taken for granted that the reader understands fairly well the situation respecting the marketing of live stock. Concentration of business has proceeded further in this line than in almost any other closely connected with the farmer and his markets. Even though there were more than sixteen hundred slaughtering plants reported in the country in 1910, the fact remains that, with the exception of purely local plants, over three quarters of the business was, a few years later, in the hands of five companies. The "Big Five" handle possibly not more than a third of all the meat used in the United States, but at the same time they handle from 60 to 86 per cent of the different meats, respectively, which enter into interstate commerce. There is no use in blinking the fact that this is concentration of an unusual type.

The occasion for the concentration is not hard to explain: the movement of the center of meat production to the west, while the center of population with a deficit in meat production remained in the east. The difficulty of shipping meat in small quantities and of assembling the many kinds and grades according to market demands, means an advantage to the plant of large size. It means that meat packing is a business of increasing returns up to a point far beyond the size of the ordinary small-town establishment. Not to be forgotten is the influence of the railroads during the years when they granted favors of all degrees to the men furnishing business in quantity. Whatever explanations may be offered it must be recognized that the live-stock buying industry has fallen into a few hands. In Chicago alone from a quarter to a third of all the slaughtering of the sixty leading cities is done.

The Sentiment concerning the Packers.—With the concentration above mentioned it is little to be wondered at that the feeling among farmers came to be antagonistic toward the packers. They were and are looked upon as monopolists, and are accused of everything which monopolists are supposed to be capable of doing. It is charged that they set prices arbitrarily, putting them up at will and down at will. This sentiment is deeply rooted and widely distributed. On it have been based movements of importance and business ventures of millions of dollars. Whatever the truth may be—and no attempt will be made in these pages to settle so difficult a controversial question—the results already are important, and unless the sentiment changes, the situation will by all means continue to be unfortunate. One of the main bases of business operations is confidence, and confidence of the desirable sort the farmers do not have in the packing companies.

The Efficiency of the Packers.—In this respect the packing companies undoubtedly rank high. They have a large number of private refrigerator cars at their command, and several thousand cold-storage stations throughout the country. Thus they are able to carry fresh meat to every important point in the United States. That such a system and equipment are desirable is beyond dispute. The packers have claimed that they are doing for the meat producer the same thing in substance which the California Fruit Growers' Exchange does for the citrus growers, viz., getting the produce to the places where it will bring the best prices and doing it in an economical way. The analogy, so far as the physical service is concerned, is good. With respect to economy in doing the business, the analogy may still be good. Both are efficient systems. The outstanding difference is in the disposition made of the funds. In one case, all profits go back to the grower in the form of higher prices. In the other, the profits go into private pockets. This is not an indictment of the packers. The same is true of the great mass of business done by farmers; that is to say, it is done with outsiders who make their living and their profits out of the business. If the packers make their

profits out of by-products which would otherwise be wasted, and if the total profits made come out of one or two cents on the dollar of business handled, the claim that the farmers would be little better off even though the packers' profits were remitted to them is defensible. The efficiency of the packer is an advantage to the consumers and the producers, as well as to themselves. It is comparatively easy to reform a system which is primitive and inefficient. For instance, it is easy to increase the production of corn per acre where it is yielding on good land but ten bushels per acre. It is not so easy to reform matters where the yield is seventy-five bushels. It is easy to better oneself by trading with a mail-order house in order to dodge a local dealer who charges exorbitant prices. It is not so easy where the local merchant is efficient and reasonable. So with the packers. It is a very easy matter to make accusations against them, but whatever the truth of the accusations may be, it is a man-sized job to go into the same field and outdo them in economy and efficiency.

The Interrelation of Live Stock and Meat Prices.—The public is always asking how closely, or to what extent, the price of meat follows the price of meat animals. It would appear from the popular discussion of the subject that the prices of cattle and hogs were to be looked upon as primary, the price of meat a resultant. This is strictly in accord with cost-of-production logic. If the packers are obliged to pay a certain amount for beef on the hoof it follows, so the reasoning goes, that they would sell it at a price in harmony with the cost. Let the reader imagine himself in the meat business. He would probably reason from the basis of what he was likely to get out of a sale of meat, back to what, as a middleman, he could, in view of that fact, bid for it. The question is whether the packer gauges his purchases in the yards on the basis of his sales at the numerous branch houses over the country, or whether he sets the prices at the branch houses on the basis of what he is obliged to pay, or pleased to pay, at the yards. The packer insists that he pays for live stock prices based on the actual and prospective sale prices for meat. This seems

to be a logical explanation, but it does not agree with the popular belief that the packers make the prices at will.

Unless we abandon all of the accepted economic reasoning, it will be necessary to view the price of meat as the governing force and the price of live stock as based upon it. Even though meat packing were thoroughly monopolized, it would still be true that the selling price would be the force over which the monopolists had less control than over anything else in connection with the business. They would be able to choose whether to sell much at a low price or little at a high price, but arbitrary price-making power is possessed only by the monopolist dealing in goods for which there are no substitutes. Such a pass has not been reached in the meat business.

Should an investigation of the packers ever succeed in revealing the real facts of the case, and should it be found that the farmer is not getting his deserts, it will be because of wide margins, not because of arbitrary ability to hold the price at a given level, either high or low. The latter undertaking is something no dealers in farm produce have yet demonstrated their ability to do. Should it be found that the margins taken are too wide, it is likely to appear that they are attributable to sudden jerks up and down in the prices paid rather than to a margin of unusual width between the steady curves of the buying and selling prices. Whatever the outcome of a search for the truth of the much debated packer case may be, there is one thing certain: it will be necessary to work back from the price of meat to see whether or not the live-stock prices were reasonable, not forward from the price of the live stock.

Attempts at Reform

The Danish Bacon Factories.—No discussion of independence from the packers can get very far without some attention to the remarkable success of the Danish bacon factories. The merest sketch of them will be given here. About 1888 the Danish market for hogs, which had been Germany, was closed. Something had to be done, and,

moreover, something of a radical nature. The only outlet for the hogs by rail was cut off. This meant that the packing must be done at home. The companies in the business were entirely inadequate and did not seem disposed to pay what the hogs were worth. Coöperation had already started in the dairy business, and it occurred to some one that the same general plan might apply to the preparation of pork products.

The first bacon factory was started in 1888, and at present there are about forty. They manufacture the main part of the bacon of the country. The companies are not large, and the equipment is in no sense as elaborate as that of an American packing plant. They do not make such elaborate use of the by-products. What they do is to make as good bacon as can be made out of the hogs they have—a cross-bred hog adapted to the trade—and put it on the best bacon market in the world at a cost of marketing which can hardly be surpassed in economy. The result is that the Danish farmer gets back in the price of the bacon hog the largest percentage of the price paid by the consumer for any considerable quantity of meat in the world, marketed by the indirect method. It has been reported that he gets ninety per cent of the wholesale price. This, or something approaching it, is possible because of the standardized character of the hogs raised; the rigid economy of the work of getting the pork made into a high-class product; and the simple, inexpensive manner of putting it on the markets of English cities. Sales agencies are maintained in these cities, and since they have a desirable article, the customers come for it and pay the top price. The salaries paid by these companies are modest. The amount of capital invested is small. The market is assured. Practically every condition needed for successful coöperation is present, and the results are gratifying.

Coöperative Packing Plants in the United States.—The history of coöperative packing plants in this country is brief. The cause of their appearance has been suggested in the discussion of prejudice against the packers. The success of the Danish companies has been an inspiration.

The claim has been made that the price of a large part of the meat of this country is augmented by a double haul, to the packing plant and back over the same road to the consumer. A few years ago it was held, in connection with a farmers' coöperative packing-plant campaign, that the average cost of transporting hogs from a point on the Mississippi River to Chicago and back to the same point in the form of pork, cost a dollar a head. This was one of the most telling arguments in favor of small plants scattered over the country.

That this freight charge was correctly stated cannot be doubted. Accepting it as a fact, however, does not by any means lead to the same conclusion at which the advocates of the movement arrived. Their contention was that the farmers should, and would, get the whole of this dollar. The consumer, on the other hand, would claim that were the expense of producing the meat reduced by a dollar per hog, he should get some of the reduction. Both are right in a measure. Hogs should be worth more at the point in question for home consumption than for shipment, and meat should be enough cheaper to keep Chicago meat out. In a surplus hog-raising district, however, the price of hogs will be the price at which they will sell for shipment. If enough are kept at home for home use, the handlers of them, if they can do the work as efficiently as the Chicago packers, should be able to sell, and should be compelled by competition to sell, at a lower price than the packers. It is a benefit to consumer rather than to producer that should result. If the producer can become the manufacturer of the finished product, he is in a position to reap the reward of a middleman, and take advantage of his favorable location with respect to freight movement. If he is nearer than other producers to the consumer, so much to his advantage. Such was the lure held out to the buyer of the stock in the new companies.

In the main, the great packing companies keep meat moving from a surplus to a deficit area. For example, one of the "Big Five" ships to the east from Chicago 61 per cent of the beef and 98 per cent of the pork

there handled.[1] With some ten or twelve plants scattered over the country, they are able to keep meat moving mainly in the logical direction. Locally a strong case can be made for municipal abattoirs in a section where meat animals are plentiful. To ship the stock out and the meat back is usually wasted effort and expense. That it is the general practice for the country at large is far from the case. It must always be kept in mind that, no matter how much meat is sent back to the region of its origin, it is put on sale in competition with the meat provided by the local butchers. If it is dearer than the home-killed meat, why does not the latter keep it out of the market? The fact is we have had much more sentiment than study, much more assumption than information on the subject. The extent to which meat packing has been centralized, and the results in economy or loss growing out of the concentration, is a most excellent subject for a monograph.

One might think that the farmers would be ready to take stock in local packing companies almost without solicitation. As a matter of fact, it took a good deal of persuasion. In order to make the sales regular promoters, or stock salesmen, were employed at the usual rates. These promoters were allowed in Wisconsin to retain as fees 15 per cent of the money collected, and in one way and another this was increased to 22 per cent, if not more. Thus the promoters got out of a company with $1,000,000 in stock from $150,000 to $200,000 or more. In other states the commissions were still higher. To a company struggling to get on its feet, and especially in need of capital, this is a body blow. The argument in favor of the promotion system is that it has been found desirable, even necessary, in the most conservative of financial enterprises, hence the farmers are following good precedent. It is also argued that the new company is in need of a certain amount of capital, say $1,000,000, and that by paying one sixth of the receipts for organization means that seven members instead of six would still leave the capital the same as though but six had joined without solicitation, and that the amount of

[1] Armour's *Handbook of Agriculture.* January, 1921.

capital needed does not rise proportionally with the membership. This may be sound argument, but even so, the new companies have been short of capital throughout their history. The promoters' methods and their fees have been a drag of much more than incidental importance in the matter of the status of the companies.

Up to date there have been no conspicuous examples of success among the coöperative packing companies, while the conspicuous failures have been numerous. Several are still running and making real places for themselves in the live-stock economy. The causes of the failures are several. The trouble entitled to first place is poor management. High hopes were expressed that this well-known malady might be escaped, but it was not. Lack of capital was the conspicuous symptom of the trouble, but back of it was the inability to move goods and get the cash back promptly. This meant a lack of confidence on the part of bankers. Bad management is sure to mean lack of capital, and for this reason a discussion of this particular incident is beside the mark. In one very conspicuous case the real trouble was the purchase of a well-nigh worthless packing plant. It had been highly recommended to the farmers by the acting manager, and had been accepted as a singularly good piece of luck by the leaders of the new enterprise because of the fact that it was a going concern. A lack of a selling organization; the difficulties of keeping on hand the required quantities of meat of each of many grades and so meeting the requirement of the trade; the lack of capital and credit; a general and lamentable lack of information on the part of the farmers concerning the packing business; all of these hinging largely upon, or resulting in, lack of expert management made for only a mediocre degree of success, or certain failure. The margin of profit made by the private packers is no doubt much smaller than the purchasers of stock in the new companies were led to believe. The swollen fortunes, arbitrary prices, and waste in transportation were the stock arguments used by the solicitors. Coöperative packing plants may succeed. There is no inherent reason why they should not, but if

they do it will be in competition with some of the most efficiently organized business agencies of the country. The fear has been expressed that the packers would be likely to use unfair competition in the hope of ruining the farmers' companies. Strangely enough, there has been in the experience of the past six years, hardly a suggestion that such tactics had been tried. Possibly one explanation may be the conviction on the part of the packers that such means would not be needed. The prospects of the coöperative packing plants do not at present look bright. On the other hand, one or two of them seem to have more than a mere fighting chance to succeed.

Coöperative Shipping Associations.—In sharp contrast to the dismal experiences of the coöperative packing plants is the widespread success of the coöperative shipping associations. These associations grew up outside the corn belt, no doubt because of a greater occasion for them there than is found in the sections where live stock is a leading industry. In such places as Iowa, Illinois, or eastern Nebraska and Kansas, stock is found in carload lots on single farms, or in any case the assembling of a car of stock of a given kind and grade is a simple matter. Moreover, the shipping of stock by private local buyers has been a business sufficiently attractive to insure keen competition. This has meant a narrow margin of profit on the part of local buyers. The larger feeders have for years done a good deal of shipping on their own account, and altogether it seemed that there was little occasion for a coöperative company in the field. It developed, however, that in the outlying districts, where stock was not so plentiful or so uniform in grade, the local buyers in self-defense dealt on wide margins.

In 1908 a coöperative company was started at Litchfield, Minnesota, and during the same year one was started at River Falls, and another at Ellsworth, Wisconsin. These were all successful from the first. By 1916 there were approximately five hundred such companies within a few northwestern states, and in 1921 probably not far from four thousand. Not only have they spread over the dis-

tricts outside the corn belt, but they have also covered the corn belt itself. The occasion for them is mainly economy in handling at the local point. Even where the margins of the local buyers are small, there are usually several buyers making a living out of the business. Thus, the question of the amount of the margin becomes a relative matter. What is needed for the living of two men and their families may amount to enough to look like a considerable saving where it is possible to do the business as an incident to farming, or even with the help of one man on full time. It is reported that in one small Wisconsin town, three stock buyers were putting their major effort into the business, driving from farm to farm, and competing in the purchase of stock. A coöperative shipping association was formed and one man, working two days per week, did all the business and shipped more stock than the three private buyers combined. The economy of the change is beyond debate. The advantages of coöperative shipping are many. Among them are: greater net returns, familiarity with the markets, a knowledge of fitting stock for shipment, opportunity to ship when stock is ready, an incentive to improve the stock of the neighborhood and to standardize it. Besides these, the farmers, individually, and as neighborhood groups, gain a dignified standing at the central markets.

Coöperative live-stock shipping companies almost never buy stock. They ship it, and the farmers wait for their pay until the check is back from the central market. This is such a short time that no one is likely to object to the plan. Usually within a week the whole matter is settled. The amount of capital needed by a company of this sort is small. It is hardly more than a small contingent fund to provide for the payment of incidental bills, and a sinking fund out of which to meet losses which are to be spread over the year instead of falling on the shipment in which they occur.

The Live-stock Commission Company.—The efficient work of a commission firm is needed in the sale of stock after it reaches the yards. This is generally acknowledged. Whether the commission should be a private or coöperative

one, is another question. The private companies are aggressive in defending their positions, and insistent that no coöperative company can do the work for a smaller charge. Their attitude is easily understood, and it is true, furthermore, that the commission charge is not a great item in the total cost of marketing stock. This, however, is not the whole question at issue. There is a controversy as to the ability of a representative of the farmers to get more for the stock than could be got by a private commission firm. The private firm makes the claim that its reputation is at stake and that it can succeed only by getting results. This is true, but all it has to do is to come up to the standard of the craft to which it belongs. Another sort of company with a different view of the client may devise better means of procedure. The representative of the farmers is more likely to be critical of the buyer of the stock. At all events, the farmers have established several coöperative commission firms, and they seem to be giving excellent satisfaction. One great advantage is theirs if the business succeeds at all: they have an assured patronage and do not have to advertise to any great extent or spend money soliciting business. The coöperative commissions operating at the Missouri River points and at Denver, started by the Farmers' Union, have now several years of history to their credit. They have surpassed, in business handled, nearly all of their competitors, and do the work for from one-third to two-thirds the regular commission charges. A commission firm of this kind gets the business of the farmer one step farther along the marketing road, which in itself is desirable, provided it be well done. It will furnish a means of learning a great deal about the packing-plant methods of doing business because of the dealings of a farmer agent with the packers. The step is a logical one, and, if taken with intelligence and caution, should prove an advantage to the farmers, and eventually to all concerned, since economy is likely to diffuse its benefits.

Conclusion.—It may be said that the meat-packing business is in a very few hands. The public is always distrustful of such concentrated economic power. Within

recent years the packers are coming to concede that the producers and consumers really have a right to know something about the conduct of the business in which they have so much at stake. Campaigns are carried on to show that they are doing the business in a commendable way. Thus far no satisfactory studies of the case have been made. The government has conducted two notable investigations, but the findings in the first one were meager, and in the second too heated and overwrought to carry the weight they should. In this second investigation were disclosed practices which arouse the suspicion of the public, but the actual results of the practices are not revealed. For example, it is charged that the packers have the inside track through the ownership of private car lines. Until the railroads are either able, or under obligation, to furnish refrigerator cars, and have them ready when needed, it is fortunate for the country that some one else can provide the service. It should be possible for the railroads to furnish the service in a satisfactory manner, but their general plans and habits in the use of cars by any and all lines getting possession of them; their freedom in putting all manner of produce into special cars, and the like, suggest the need of revolutionary control from the outside before the perishable foods of the country are to be entrusted entirely to their care. It would seem that common carriers should be compelled to give this service, and that it would simplify shipments and broaden the field of competition among the producers and handlers of foodstuff.

The coöperative action among farmers and ranchmen in getting their stock to market, and, through the market, to the packer, would seem to have come to stay. The objections raised against the farmers' programs do not seem, on the one hand, sound, or, on the other hand, sincere. From somewhere must come the influence eventually able in some degree to stabilize the market, to perform the services efficiently, and to give the producer the largest possible return out of the consumer's dollar. At the same time the consumer is interested in the matter, since economy in the processes will make his dollar go farther. To take

it for granted that competition will solve all marketing questions is childishly naïve, and to assume that coöperation will of itself bring the remedy is no better.

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CHAPTER XXIX

THE CONTROL OF THE MILK MARKET

Among the great number of complex marketing problems confronting the farmer there is none more in need of solution, or more difficult of solution, than that of marketing milk. The reasons for this situation are fairly obvious. Milk, that is to say, fresh milk, is strictly a perishable commodity. Moreover, it is one of the most necessary, most indispensable, of all food products. Thus, in a very real sense milk must be had by most families, and it must be provided daily. Over two fifths of the entire quantity of milk produced is used as fresh milk. This includes the milk used on farms as well as that sold. Under ordinary conditions milk must leave the farm and reach the consumer within a period of from one to two days. The storage of fresh milk is negligible.

Weak Position of the Farmer as a Seller of Milk.—It must be remembered that about two thirds of the American people live in towns or cities and that milk must be carried from the farms to them daily. The supply must be constant, even though not exactly regular, in amount. Groups of farmers ranging in number from a half dozen in the vicinity of a village up to many thousands sending milk to a city, constitute the selling units. The farmer furnishing milk for the village nearly always has an alternative market readily reached. He is, most likely, within a short distance of a creamery or butter factory, or at least near to a cream station. If he should be obliged to separate his milk he can, as a rule, make use of the skim milk at home. On the other hand, the patron of the city milk trade is not in a position to change from this to another market without much inconvenience or loss. The chances are that whatever creameries or cheese factories once operated in

his neighborhood, there are none after a few years of shipment of milk to the city. Not being in the hog-raising business as a major consideration, the dairy farmer does not wish to separate his milk and sell the cream only. His alternatives are few, except that he can always reduce his milk production, and this means loss.

It must be remembered that the usual arrangements in the sale of city milk include the farmer at the country end of the line and a city distributing company at the other. The farmers in recent years have been united into coöperative companies. Until within the past few years—fifteen or twenty—the farmers were without organization, and were, therefore, obliged to take what was offered by the city company or exercise their rights to refuse to take the price and furnish the milk. To those having an unshakable faith in the efficacy of competition as a regulator of all economic forces, it might seem that the right to refuse delivery of milk would be all the argument needed in bringing about desirable results. Such, however, is not the way it works out. Each individual farmer was disposed to look out for himself without a doubt, and so should, according to classical doctrine, have been able to get all his goods were worth. As it works in practice, each farmer is played off against every other farmer, the buyer making it appear that produce is plentiful and easily obtained. Thus, the weaker bargainers of the group, with their poorer product, were always the most efficient sellers, and others had to accept the price set by this, the weakest, element. The result was for years that the milk distributors of our great cities offered a price which was barely above the butter-fat price at creameries, and got, not only the butter fat, but the whole contents of the milk along with it, at a price which included almost nothing for the other ingredients. Moreover, they began to enforce sanitary regulations which added to the cost of producing milk, and, even so, tried to make the farmer believe he was being well paid. This relationship lasted until within the past twenty years and even by 1916 it had not been radically changed.

The Position of the Distributor.—It must not be imagined that the distributors were in a particularly enviable position. A few of them, owing to their superiority over their competitors, made excellent returns. Many of them just existed. Not a few failed. It is another case of the failure of competition to bring about desirable or desired results. The milk business lends itself fairly well to the economy of large enterprise, but it seldom approaches monopoly. No matter how large the successful businesses grow, there seem to be around them a bevy of little distributors, inefficient and unprosperous though they may be, but persistent. These small distributors may fail, but no social good comes of the failure. Others take their places almost at once. It takes very little capital with which to start a small distributing plant, yet a small plant can exercise a great influence in price-making. In a city in the Middle West in 1916, a company with a few thousands of dollars started in business, and by cutting prices compelled the old-established distributing companies to come down at a time when they should logically have been raising prices. The result was that all distributors, big and little, ran for over a year at a loss. The company responsible for the price-cutting planned to build up a trade on the basis of favorable prices, and after doing so, run at a profit. This they very naturally failed to do.

The distributor of milk is in the same situation as an ordinary grocer. He can hope to make money by greater economy than his competitors are able to practice. He cannot hope to drive competitors out of business, and the presence of competition, while it no doubt insures a certain advantage to the consumer, at the same time perpetuates expensive practices for which the consumer must pay. In the milk industry neither big business, nor little business with many competitors, insures economy. Of the two extremes the much divided business among many distributors is clearly the worse. Concentration facilitates the enforcement of sanitary measures at least, and is no harder to deal with respecting economic regulations. Instances of concentration approaching monopoly are rare.

The High Cost of Milk Distribution.—Few business practices illustrate how a certain piece of work should not be done better than the usual method of getting whole milk from the point of concentration to the consumer. As it is done, under the force of competition, substantially all distributors are obliged to cover the whole city, or in large cities a great area, with the result that all distributors within these areas are able to say to all consumers, "Our wagon passes your door." The chances are that it does, and as a result the cost of milk delivery approaches the cost of its production.

Observations and measurements of milk routes have been made in various cities, and it has been found that the streets of most cities of any size are traversed daily somewhere from two and a half to eight, or possibly ten times, by milk wagons. For instance, in Milwaukee in 1917, the aggregate length of milk routes was five and seven-tenths times the street mileage of the city; in Madison, Wisconsin, three times. It should be remembered that on some streets for long stretches there are no residences, and hence no occasion for a milk wagon to pass over them. Could these deductions be made with accuracy, it would have appeared that, where streets are traveled at all, the number of times traveled is higher than reported. In Chicago, in 1917, it was found, in a few selected districts, that from eight to ten milk wagons passed through each street, in nearly all cases making deliveries.

Not only are there a preposterous number of wagons, horses, and men immediately engaged in the delivery of milk, but competition leads to the employment of still other men, possibly without horses and wagons, who go about soliciting trade, making collections, and in various ways advertising the business. Collections under this system are a formidable part of the whole job of delivering, the driver often making a special trip for this purpose. It is even claimed, by those who do not want a reform, that it would not be feasible for a driver to deliver more milk than the usual amount because of the heavy load of work which piles up on collection days.

The Burden of Surplus Milk.—Until recently it has been the custom in all centers where milk is needed in large quantities, for the distributor to take care of the surplus during the season of heavy production. The effort to adjust the supply to the demand throughout the year has not yet met with great success. A scale of prices designed to encourage the production of more milk during the months of natural scarcity and discourage it during the period of excess production, has done much toward obviating the difficulty. However, the fact still remains that there is too much milk in the spring and too little in the fall and early winter. The price, as a regulator, can never be expected to solve the whole problem, since it is not feasible to reduce the spring and summer price below the value for other purposes, such as butter and cheese making, and at this price as a minimum the marginal producer of city milk, that is, the one who is the most easily diverted to something else (indeed a large number are guilty), persists in producing more milk than the city needs.

The distributor in the past, and in many places even to-day, has been between two fires. Either he could drop some of his patrons during the summer and so reduce the excess of milk coming to him, or he must stand a loss on the surplus but keep his patrons, and so have them during the season of short production. The only alternative was the search for new supplies of milk every fall, and this defeated its own end, since at that time a premium had to be offered in order to divert the supply from some other market where it was presumably getting satisfactory returns. Now nearly always the distributors prefer to manage the surplus. This they do by using all possible amounts in the manufacture of dairy products particularly in demand during the summer, such as ice cream and cottage cheese. Where there is still a surplus left it is necessary to manufacture it into butter, or, less frequently, into cheese. Some years ago it was not unusual for the surplus to amount to 20 per cent of the product during two months or more. The tendency has been strong in recent years to adjust more perfectly the supply to the demand.

How Prices Are Made.—As already noted, the abstract forces of supply and demand do not work in an ideal manner in bringing about an equilibrium. On this account the milk producers' organizations were formed, and the producers around the big cities began to make demands. For some years the producers' organizations were hardly more than loose groups determined for the moment to act in concert in making a demand and enforcing it, if need be, by a "strike," as it is called. The action indicated is really a boycott. Sometimes these fighting tactics brought the desired results; more often they did not. The farmers had little control over their own members and therefore the breakdown of the boycott was always to be expected before the battle was won.

Prices by Committees.—Out of these troubles have come stronger producers' associations, and the method followed is to appoint a committee, sometimes called, where relatively permanent, a commission. The committee consists of representatives of the farmers and of the distributors and sometimes also of members entirely outside either group. This committee holds meetings at least once a month and decides the price of milk for a month in advance. On what basis does the decision rest? It would be impossible to give a definite answer. Sometimes the basis is fairly clear, often it is not. The only safe answer covering all cases, is to say that the primary feature is bargaining strength. No matter what theories members of these committees may hold, whether they do or do not believe in cost of production as a sacred doctrine, whether they believe in ratios as the answer to the conundrum, whether they believe in a "fair" price: all eventually come to the inevitable point of asking, on the one hand, what will happen to the supply, and on the other, what will happen to the demand, in case the price be changed. One commission, with at least two disinterested members, not only professed faith in the cost-of-production theory but solemnly announced that during a period of months they had used the formula and arrived at a satisfactory price! A satisfactory price is one thing, and a method for finding it

another. To find a satisfactory price is much like locating the center of a circle. If it is found nearly enough to satisfy the requirements it matters not how unscientifically it is done. However, the unscientific method is going to produce a series of eccentries, and good judgment and observation will be required with each location. Were it a scientific procedure in each instance, a routine clerk could do the trick, once the data were available. While price and cost of production happen to run along in the same direction at the same gait it is an easy matter to mistake cause for effect, and to use an old figure, to insist that the trailer instead of the trolley furnishes the power. But once let them part company, as they have done during the years 1920 and 1921, and the dominant member of the alliance at once asserts itself. The commission is bold indeed if it can insist that the lower prices of milk, which it has been a party in naming, are cost-of-production prices. The farmers would lose all faith in the program were they advised to that effect. No doubt, after a new level has been established and costs and prices again assume a normal, the commission may be able to make itself believe that the price determinant is cost. It will most certainly develop that a balance will eventually come, and cost will be one of the weightiest forces in bringing it about. Cost and price cannot forever be divorced. Price must in the long run cover cost. So say we all.

Milk Prices in Terms of Butter, Cheese, or Other Dairy Products.—The writer proposed some years ago that city milk prices be based mainly on the value of milk for other purposes.[1] On the face of it it seems a logical thing to do. The butter and cheese have a wider market. These products can be both stored and shipped. The by-products have an ascertainable value as feed for stock. With these as the elements of an alternative market it might seem that a great step had been taken toward a conclusion of the debate over the city milk price. All that remained to be discovered was the premium, or margin, which would be needed to induce the farmer to come up to the standard of

1 Hoard's *Dairyman*, March 1, 1918.

city requirements in the way of sanitary measures, and the demand for a fairly even flow of milk during the twelve months. Recently the proposed plan, in its essentials, was tried in New York City. Hardly had it been adopted when the prices of other dairy products and feeds began to act in a very erratic manner, and the agreement seemed to be out of harmony with the conditions. The value of milk for alternative uses will always play a major rôle in the price of city milk. To assume, as many of the milk producers did during the struggle of 1917 and 1918, that city milk was unique, so much so that the competition of other milk for the city trade was remote, is to hide from danger by the ostrich method. True enough, milk from outside the regular supply cannot be drawn upon as easily as water from a lake, but it can, nevertheless, be obtained if necessity should arise, and loyalty of farmers outside an organization to those inside, if the term loyalty can be applied, is not such as to furnish support. It might as well be understood first as last that the price of city milk is bound to follow more or less closely the ups and downs of the prices of milk for other purposes.

The Function of the Farmers' Company.—As noted above, the farmers' companies began as loose organizations and won a few temporary victories through boycotts. During the World War the producers' companies found it necessary to strengthen their organizations in order to make headway against the strong inertia which holds milk prices at a customary level when other related commodities are undergoing rapid change. The federal commissions appointed by the Food Administration very properly asked why milk prices should rise to a given level, and the weakness of the farmers with their lack of organization was made painfully manifest. The result was that the producers' companies took on a new aspect and for the first time became real, recognized influences in the price-making advices. It was evident that there was to be work for the associations in earnest after the influence of the federal commissions was past. The influence of the dairyman who could himself deliver milk to consumers was small, since

he no longer lived as near to the city as formerly. On the other hand, the city distributor could no longer do, as he had within a few years done, go out wherever there was milk and buy it unhindered for his trade. All this gave the dairyman a class-conscious feeling, and he became aware that he must look out for himself.

To organize was easy. What to do, or what could be done, were questions not so easy. There were, however, a few fairly obvious truths. The dairyman must know the market from month to month and not wake up, after the season was over, to the fact that prices might have been higher. It was the business of the dairyman to make the supply and the demand balances swing on a free bearing and not be stiffened by unnecessary friction. This meant that the farmer should be ready to do something for himself which he could do more economically than it could be done for him by somebody else. One of the very first lessons to be learned was that the producers should sell to a willing buyer. That is to say, the producers should not go ahead producing in quantity pleasing to themselves but out of harmony with the demand. A satiated buyer is not a keen bidder. So the farmers from Boston to San Francisco began to discuss the question of surplus milk. The question had been asked countless times, Why should the distributors pay less for milk in the summer than in the winter, since they sell it at the same price (or at a price slightly lower)? The answer was, they did not sell at the same price when all the milk purchased was taken into account.

Not only have the farmers discussed the question of surplus, they have, to a great extent, solved it. They have raised money, established offices, rented or bought creameries, sold to the distributors the amounts of milk wanted and used the rest as best they could in other ways. The milk is pooled for the month, so it makes no difference whose goes into butter or cheese. At the end of the month the statement of each producer shows how much was surplus and what it brought. Thus is brought home to every farmer the knowledge of the market conditions, and he is compelled to comprehend the fact that the excess product

reduces the unit value of the total amount. On the other hand, the distributors are compelled to face a group of men who know what they have to sell, and know substantially what it is worth. This is without doubt a phase of collective bargaining, no matter by what name it may be called. The distributors appoint a committee to confer with the farmers and the case is fought out on the basis of the facts known to both parties. If they act in a way detrimental to public interest one thing is certain: the blame is easily located. It is a simpler matter for the authorities to deal with organizations of substantially equal strength, and if rules of the game are needed, to make them.

Thus are prices made, not by rule of thumb, not by authority, but by bargainers who know the market and who are able to predict with a fair degree of accuracy what a given price will mean in the way of future supply and demand, and it is to the interest of both parties to maintain the balance.

Radical Reforms

For years there have been predictions that the milk business would sooner or later be the subject of sweeping reforms. One reason for this belief is the absurd waste in the delivery of the milk. It was shown, by a demonstration which has had wide publicity,[2] that the milk for Rochester, New York, could be distributed by one fourth the men, one seventh the horses, one twelfth of the wagons, and one eighth of the travel actually used, if only it were done by a unified system. It was shown in the sense that a dummy demonstration shows realities. The case seems to be overstated by a considerable percentage, but even so, suppose it proves twice too much, the indictment is convincing. The writer also conducted a dummy distribution demonstration in Chicago in 1917.[3] It was the conclusion from this demonstration that the number of men needed in a

[2] Williams, John R., Transactions of the Fifteenth International Conference on Hygiene and Demography, held at Washington, D. C., 1912.

[3] Wisconsin Experiment Bulletin 285.

unified system would be possibly 55 per cent, the horses 37 per cent, or less, of the number now used. It seemed safe to say that the cost of delivery would be reduced about one half. This would mean approximately a reduction of one eighth in the retail price of milk, a much more modest finding than that of the Rochester study. The zoning system was tried in several Pennsylvania cities, and the savings were important, yet not so large even as the theoretical saving for Chicago made on the basis of the dummy delivery.[4] The occasion for a radical change is ample. A few proposals and attempts at realization will be noted.

Municipalization of the Business.—It has been proposed that the city declare the milk business a public utility and run it as a municipal monopoly. This plan has never been given anything more than a tentative trial. One of the most important attempts at a city monopoly is that of Wellington, New Zealand, with now nearly three years of history. The milk is supplied by coöperative organizations of farmers. The city owns the plant, buys the milk, prepares it for distribution. While much duplication in delivery is obviated, and while the farmers are paid a reasonable price for the milk, it must be admitted that thus far much remains to be done before an ideal arrangement is reached. The spread between producer and consumer is about as it always has been, with, however, a prospect that it will be reduced.

The municipalization of milk has great possibilities in the way of good results, but it also has just as great possibilities in the way of undesirable results. The milk business needs to be unified, but that the city should take it over remains to be demonstrated.

Coöperation in Milk Delivery.—No one should wonder that farmers have for years talked about establishing cooperative milk-distributing plants. The occasion for it seems ample. The farmer sees the price of his milk double within a few hours from the time it leaves the farm, and yet it seems like the same commodity. Why he should sell

[4] King, C. L., *The Price of Milk*, p. 259.

milk to the Chicago dealers at 5 cents a quart and they in turn sell it to the consumer at 13 cents needs explanation. Nevertheless, the explanations that have been made in the past are reasonably satisfactory. It costs the major part of the difference to handle and distribute the milk. The dealers who prosper make their money on a quarter or third of a cent a quart. This margin of profit does not look tempting to the farmer. If he is to prosper through the coöperative distribution of milk in the city, he must outdo the present distributors or proceed on a different basis.

Should any farmers' company undertake the distribution of city milk, it will at once become evident that they must buy, build, or rent a plant. In almost any city in America this will mean that they are to enter the field as one of several competing companies. Let it be remembered that competition is the curse of the milk business almost universally. Competition means too many companies, and an absurd excess in delivery costs. If the farmers make of themselves one of these competing companies, they too will deliver at high cost, will spend money for soliciting trade and making collections, and will probably be disappointed.

The farmers' company, like any other, will find itself in need of a high-class manager, up-to-date equipment, a favorable location, and all the rest that goes to make up a first-class establishment. If they can do as a group of farmers' companies in Copenhagen have succeeded in doing, there is hope of success. These companies have a substantial monopoly of the city trade and send a wagon load of milk accompanied by a driver and several delivery boys down a street, making a clean-sweep delivery as they go. This is a sane way of performing the work. The competitive way is not.

The duplication of facilities and labor in doing a given piece of work is seldom the best procedure. To become one of several competing organizations offers a fighting chance of doing as well as those in the field, or, of course, always a possibility of outdoing competitors. That a farmers' coöperative milk-distributing plant can outdo the business concerns now in the field does not seem very likely. It

must not be taken for granted that a farmers' company can hold its own against the competition of such milk distributors as we have. There is good talent and ample capital engaged in the business.

The hopeful prospect would seem to be in getting control of the whole trade of a city and reorganizing it on the basis of economy. This has been done in a few places, but not in enough to form the basis of an opinion as to its probable future.

Sale through Grocery Stores.—That the stores might handle all the milk of a city is perhaps conceivable. In fact, it has been done for a brief time. If it is ever to succeed in a large and permanent way, it will cause a revolution in the store business, particularly with respect to delivery. People want their milk at certain times of day, substantially always during the forenoon. Above all, they want the delivery regular. If the grocery delivery can come up to these requirements, to say nothing about keeping the milk on ice while in transit, it will at least mean a revolution in that department of grocery work. To get a little milk at the store is a very convenient privilege, and as a supplement to the regular supply the grocery fills a real place in the whole scheme. Incidentally the cost of store delivery is below that of the milk distributor.

Where the stores handle a considerable part of the milk, as a quarter or half, it is enough to demoralize the trade of the retail milk distributors, and at the same time the stores are probably not making anything out of the trade, while, most important of all, the consumer is being poorly served. It should be done either one way or the other, and there is little room to argue in favor of the stores.

Cash-and-Carry Milk Depots.—On various occasions, especially during the World War when the cost of food was attracting unusual attention, there were a considerable number of milk depots, or stations, established, at which customers could get milk on the cash-and-carry plan. Quite frequently it was announced that the milk riddle had been solved. Milk was 2 cents cheaper at the cash-and-carry stations than delivered in bottles. But it was even 3 cents

cheaper when sold as "loose," or "dipped," milk, and why not? If by "cheaper" is meant at a lower immediate cash expenditure, it would be simple indeed to give the prescription for lowering the high cost of living. Starting at the farm, it could be shown that less money would be expended if the farmer's wife made her butter, cheese, and sausage; spun and wove the wool grown on the farm; made soft soap from waste fats and wood ashes. In fact, if living without the payment for service is the ideal, there is almost no limit to the length to which it may be carried. We would all be able to live, at least for an indefinitely long time, on what can be grown on the farm, without any purchases whatever. Of course, the income, both real and nominal, would be curtailed.

The cash-and-carry plan of buying milk, like buying anything else, may be done at the place of business of the seller, but running to a milk station for a quart of milk, perhaps a mile distant, and getting it in a pail, does not appeal to the sophisticated American as a good way to earn, or save, 3 cents. It is a return to the primitive, to the inconveniences of yesterday. What we need in place of an expensive delivery system is an inexpensive delivery system; not the privilege of carrying goods by the mile in one or two pound lots.

Conclusion.—A quarter of a century of experience under conditions essentially unchanged serves to show that little is to be hoped in the way of improvement in the milk business without a radical departure from the methods in vogue. Competition gives the farmer just a shade more for milk for city use than it is worth for other purposes. It takes an organization and a committee, or commission, to get even this. With the organization and its representatives to speak for it, it has become possible to put the milk business on a fair footing. Shall the farmers try to get more of the consumer's dollar? It is a laudable goal to attempt, but it is rather the business of the consumer to try to get milk for less, more nearly at the farm price. This is true, since a success on the part of the farmer in getting a larger share of the consumer's dollar, as now ex-

pended, would no doubt result in greater competition which would make this branch of dairying more profitable than other branches, but for a short time only.

Unless the public is willing to support a business which charges for its inefficient and wasteful methods at the rate of a cent or two a quart, it will no doubt be necessary to create a unified system, a monopoly, either by public ownership, or through the granting of a license to a company, and a regulation of the company. The Wicks Committee of New York sums the matter up admirably:

> This business (milk) is conducted on an extremely competitive basis . . . a large part of the cost arises from the bitter competition existing in the distribution of the product. . . . An army of solicitors and sales agents are maintained. . . . Great and expensive organizations are maintained. . . . Overhead charges attributable to this work amount to an alarming sum. . . . It is customary to refer to the fact that four or six or ten milk wagons and milk drivers visit the same block . . . but this ignores the really greater expense of the silent army of retainers. . . . Not only do we find in a single block six solicitors, six route superintendents, six staffs of clerks and bookkeepers. . . . The distribution of milk is a public service, which, to be put upon an economic basis, requires public regulation to the end that all unnecessary services even of a competitive kind may be eliminated.

Distribution of Milk Should Be a Regulated Public Service.—It is safe to assert that the consumer in the City of New York pays several millions of dollars annually for the privilege of having all the numerous purveyors of this necessity of life engage in attempts to serve him. . . .

It certainly seems as if the dairymen of this state, and the distributors with their invested capital, and the consumer, should coöperate to the end that these unnecessary competitive wastes be eliminated. . . .

The investigations of the committee lead to the conclusion that under the present competitive system it takes almost as many men to bring the dairymen's milk to the consumer as there are dairymen engaged in the production of milk with all their employees. This is the result of the purely competitive basis upon which the business is handled. Three or four milk stations are being maintained with a separate force of employees to collect

and receive the dairymen's milk at many points where one well-equipped station with a competent force could do all the collecting at one-fifth the present expenses. This unnecessary duplication of service follows with all its attendant overhead and capital investment from the country milk station until the bottle of milk is finally deposited at the consumer's door. A large part of this, in the judgment of this committee, could and should be eliminated. . . . The only solution possible is to limit and leave only those in the field which the service actually requires. This is just as obvious in the case of milk as it is in gas or any other daily necessity supplied in small quantity to the consumer.[5]

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CHAPTER XXX

THE COOPERATIVE MARKETING OF CHEESE AND BUTTER

Among the earliest attempts at coöperative marketing among farmers are those connected with cheese and butter. Probably one cause of the early development in these fields was the great difficulty in getting the products to market at all. Butter was made on the farms during the warm months of the year. Cheese was not easily made on farms, each farmer making his own. These circumstances led to the demand for neighborhood factories for both butter and cheese.

Cheese

Cheese a Factory Product Almost Exclusively.—Nearly all the cheese of the country is made in factories. Possibly a third of these factories are coöperatively owned. While the number of coöperative factories is important, the amount of coöperation practiced by them is not so great as might be expected. Aside from the sales made through federations, noted below, the usual cheese factory performs for the group the work of making the cheese. This involves the use of a small building, a moderate amount of equipment, and the employment of a man or two, in the manufacture of the cheese from ten to twenty-five farms.

Methods of Making Sales.—The manufacture of cheese is to the farmer an incident in marketing, yet until a few years ago it was the last step preceding the sale, and up to the present the same is true in the great majority of cases. Thus, the private agencies have developed between the factory and the consumer, and in a rather elaborate way. Dealers, who are generally speculators to a greater or less extent, buy the cheese on public call boards, or direct from the factory in still more instances, and sell it to the wholesale trade of the cities. These dealers buy any and all

cheese offered. During the season of surplus supply they store it until it is in demand, perhaps a month later, perhaps six months later. Alongside of the dealers bidding for cheese are brokers who are buying for some particular house, or company, cheese which may be wanted for storage in order to have a well-cured article for sale, or possibly to pass immediately on to the trade. This means that the farmer waits for bidders to come to his neighborhood and buy the cheese for whatever, among such buyers, it seems to be worth. From this point it is passed on to one or two wholesalers, and from them to the retail trade. Cheese sold in this way brings the farmer about half of the price paid by consumers. Why the spread should be so wide has been the subject of much debate. A few years ago the University of Wisconsin conducted some studies for the purpose of explaining the processes and charges involved in the marketing of cheese. The occasion for this study was an uprising among the farmers of the greatest American cheese district of the state. At a meeting of the cheese board on a certain morning the price of cheese had dropped 3 cents. It was the time of year when prices were normally on the down grade, but the occasion for the sudden collapse was not apparent. One of the dealers in an unguarded moment is reported to have responded to the question, Would it not have been a shrewder thing for you people to let us down a little at a time? by saying, "That's what I told the rest of the dealers." Whether or not the dealers had acted in good faith or whether for the day they had a virtual monopoly and took advantage of it, would be a hard matter to prove. The evidence pointed toward the latter explanation, and at any rate the farmers were not satisfied with the treatment they were getting. The wide gap between the farmers' return and the retail price was cited as *prima facie* proof of the existence of unfair dealing.

Out of the study made, corroborated later by the experience of the farmers' company, it was learned that the cost of marketing cheese, starting with the milk at the factory was, per pound, about as follows:

1.	Cheese maker's pay	1.75 cents
2.	Dealer's margin	.75 "
3.	Transportation	1.25 "
4.	Wholesaler's and brokers	2.00 "
5.	Storage and shrinkage	.80 "
6.	Retailer's margin	5.50 "
		12.05 cents

The farmer received 13 cents or just barely over half the retail price. The question at once arose as to the inroads that a marketing company could hope to make on these charges. It very soon became apparent that savings could not be expected on the first, fifth and sixth items. On the third there was hope of a little gain through bulking orders and direct routing. Thus, the main hope lay in reducing the margins made by the dealers, and by more direct sales cutting down somewhat the wholesaler's share.

The Wisconsin Cheese Producers' Federation.—As a result of the dissatisfaction, a relatively small number, forty-three, of cheese factories formed a federation, built a warehouse, and went into the cheese-selling business. It had been hoped that a saving of several cents a pound would result from the new enterprise. During the first year about seven million pounds of cheese were handled. While this was not a great deal out of one hundred and ninety million pounds made in the state, it was enough to permit a fairly economical margin as the operating cost. After some years of experience, it has been found that a federation, so small as to constitute virtually one cheese dealer among the rest, can hope to effect but a small change in the share of the consumer's dollar going to the farmer. The Wisconsin Cheese Producers' Federation has succeeded excellently. During the period from 1914, when it began, to 1920, the business doubled. However, the experience of the seven years points conclusively to the fact that while a few eighth-cents per pound have been saved; while another amount, not measurable, has been saved by preventing unwarranted collapses of the market like the one referred to above; while the farmers have learned a

hundred times more about the cheese-marketing business than they would ever have known without going into it—while all of these results are important, it has developed that up to 1921, the Federation has been an additional dealer. The question arises, Can the cheese producers grasp the situation in a fundamental way, finance the marketing of their produce, and sell it where and when it is wanted throughout the country, and throughout the year? This means something more than merely receiving the cheese from the farmers and passing it along to the wholesalers, packers, or other dealers. It means feeding the market to some extent. Doing work of this kind in a large way involves the question of quality of the produce. Already an instructor is employed whose duty it is to educate the farmers and cheese makers on methods of bringing the cheese up to a high standard. The question of quality is, no doubt, as important as any other one point involved in the marketing problem.

The Wisconsin Cheese Producers' Federation is starting out on a new plan, involving expansion in amount of business, and a new era in the type of business done. If it succeeds it means a revolution in farmer control of the marketing of an important product. The amount of business which may be done is so great that no limit, within reason, need be set on a manager's salary, since a difference of $25,000 a year would be insignificant spread over the quantity of produce which may be handled. A company handling $20,000,000, or $40,000,000, or $60,000,000 worth of business can, if it can do the work in a businesslike manner, afford the best of men and facilities. There seems to be just as much reason, barring one consideration, to believe that such an organization may succeed in the cheese business as there was twenty years ago to anticipate such a development in the citrus fruit business. In the citrus business, the alternatives were success or disaster; in the cheese business, only varying degrees of success. Here again is found the inevitable fact that farmers, in order to effect economies, must, instead of fighting against big business, learn to imitate the practices

of big business with respect to economy and efficiency, and thereby apply the principles to their own affairs. A business is not righteous because it is small, nor unrighteous because it is big. More likely it is small because inefficient, or big because efficient. The federation of farmers' marketing companies is a step toward efficiency, and it is the positive action, not the negative, that results in progress.

Butter

While the number of farmers producing cheese is relatively small, the number producing butter is large. Butter is more often a by-product of general farming, while cheese, that is, milk to be made into cheese, is usually the main consideration where produced at all. This fact, no doubt, has much to do with the difference in the progress thus far made in methods of selling. Butter is sold by individual farmers to town merchants, cream is sold to private creameries, or cream is delivered to coöperative creameries and sold by the manager to the butter dealers.

Sale to the Country Merchant.—This is the oldest, the most widespread, and the worst method of selling butter. The merchant is in no position to handle it efficiently, and usually takes it as a matter of self-defense, knowing that if he should refuse, not only would the butter go to a competitor, but likewise the trade of the customer offering it. Throughout the sections of the country in which creameries have been developed the sale of butter at the stores has become less and less frequent. Not only is this true within the vicinity of a local creamery, but the centralizer draws from a wide territory, hundreds of miles, and assembles cream that otherwise would be made into butter for the home-town market.

The Local Creamery.—A generation ago the local creamery grew up throughout the main dairy sections. It was a great step in marketing butter, taking the work of manufacture out of the home. It meant, at the same time, a cash sale. A large part of the local creameries were cooperative, and, unfortunately, a great part of these were put up under the direction of promoters. The promoter

story is a long and interesting one. It took millions of dollars of hard-earned money from the farmers and gave them little in return. However, out of it all came a large number of excellent coöperative creameries, probably about a third of the total number. The building of the creamery was a revolutionary step in the marketing of butter, but it was not the final step. The local creamery has been, and is, a weak marketing unit. The quality and quantity of butter made at the different local creameries varies greatly. The manager, whether in a private or a coöperative company, is by no means an expert in meeting marketing problems. At the other end of the line, in the central markets, are found a large number of wholesale receivers of butter, who sell the butter to smaller wholesalers, jobbers, who in turn deal with the retailers. Mention has been made of the old statement, accepted as axiomatic, that there can be but one price for the same article in the same market at the same time. Here the refutation of that time-honored doctrine is furnished daily. Of course, it may be exonerated by tracing the price back to the country and calling each creamery a market place, but that is only a pretense. The central market is logically the one in which the sales are made and there the seller does not function freely. As a result, all sorts of variations in price for goods virtually the same are to be found. The explanation is simple. Out in the country, without concerted action, the sellers of butter are always in the dark concerning the quality of the product they have to sell, and still more in the dark concerning the value of it in terms of certain standard quotations on which the sales are based. For many years local creameries sold butter for delivery in cities in the Middle West on the basis of "Elgin." The city of Elgin had been for years the center of the wholesale trade. Later it fell into a secondary, then, into an insignificant, place with respect to actual transactions. The Elgin board was continued. A few men went out there from Chicago once a week, a few hundred pounds of butter were presumably bought and sold, and on the figures given to the press, a large part of all the small creamery product of several

states changed hands. Never was there a more inadequate method of arriving at a price, yet of course it could not get very far out of line with the real market, Chicago or New York, or its life would have been shorter by years than it eventually proved to be. Local creameries received the Elgin price, a quarter cent above, a half cent below; this price was f. o. b. shipping point or at destination; all depending on the bargaining ability of the buyer and the information possessed by the seller. As a manufacturing unit, the local creamery has been a success. As a selling agency, it has been a very mediocre success. What it has done, with few exceptions, is to make the butter and dump it on the market, trusting that the beneficent forces of competition would result in the best price obtainable.

The Centralizer Creamery.—Where the amount of cream obtainable was not sufficient to support a local creamery without too long hauls the centralizer creamery has developed. Thus in Nebraska, where there were once nearly three hundred local creameries, almost every one a promoted coöperative organization, there are now an insignificant number of local creameries of all kinds. In place of the local has come the centralizer, a creamery gathering cream from distances often reaching into several states. These immense concerns making twenty million or thirty million pounds per company in a few plants advantageously located, drive the local creamery out of business. It costs them more per pound, to gather the cream than it would cost local companies, and the cream is not in very good shape when it arrives. The success of the centralizer depends on two main points of efficiency: it can use scientific methods in making fair butter out of poor cream, and it can employ expert management in the selling department. The result is that the centralizer makes a rather low, not poor, grade of butter, holds it to a uniformity not obtainable by local creameries, creates a demand for its product, and so establishes itself in a firm business position.

The Federation of Local Creameries.—This will be done, so far as it is done at all, by coöperative companies. The task is to unify the product and concentrate the sales.

The first is a difficult, though apparently not impossible, undertaking. The second part of the program requires concentration of quantity, and the employment of skilled management. The hope is that the route from creamery to consumer may be shortened by a step or two, and that carloads of uniform product may be shipped. The centralizers sell in large quantities to any customers who will buy, and in some cases reach very nearly to the retailer. It is in efficient selling that the greatest of all advantages enjoyed by the centralizers is gained. Several federations of local creameries have been started in the hope of performing a similar service. A federation has been in operation in Michigan for a few years, and another in Oregon. One has recently been started in Minnesota. The federation of a small number may be worth while, but the problem will never be solved until it is done in a wholesale manner.

Just what is to be hoped from federations of creameries may be judged best from the situation at present. A few years ago butter was selling at about the present price, perhaps a little below, but the proportions going to the different agencies are no doubt not greatly changed. At the time referred to, 1916, the distribution of the consumer's dollar was as follows, for a pound of butter:

1.	Farmer	23.33	cents, or	67.7	per	cent
2.	Hauling	1.50	" "	4.3	"	"
3.	Creamery	2.33	" "	6.7	"	"
4.	Railway	.80	" "	2.3	"	"
5.	Storage	.18	" "	0.5	"	"
6.	Shrinkage	.23	" "	0.7	"	"
7.	Receiver, Jobber, Broker	1.75	" "	5.0	"	"
8.	Packaging	1.00	" "	2.9	"	"
9.	Retailer	3.43	" "	9.9	"	"
		34.55	cents, or	100.0	per	cent

This is a higher percentage for the farmer than he receives from many other products. As in the case of cheese

selling, it does not look as easy as one might imagine when the place to make the savings is demanded. What the farmer is worried about in 1921 is fully as much the fact that butter is selling in Chicago at 30 cents a pound as that he is getting but two thirds of that amount. This is true because, at best, he cannot hope for a very much greater share. There is an opportunity, nevertheless, to effect a saving on a few of the expense items; probably not much in items 2, 3, 4, 5, 6, 8, and 9. On some of these there might be slight savings, but the main hope is on item 7, and this is but one sixth of the total expense. There is, however, another great possibility. This is in an increased demand for butter brought about by education and advertising. The demand for dairy products is at least fairly elastic, but left to itself it seems very inelastic. Butter, cheese, and milk could all be sold in greater quantities were the advertising pushed half as assiduously and conspicuously as is done in the case of special brands of goods often lacking such useful qualities. Recent campaigning has proved the feasibility of educational work in teaching the public what food materials to buy.

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CHAPTER XXXI

THE ACHIEVEMENT AND POSSIBILITIES IN COÖPERATION

It must be acknowledged before attempting to express any judgment respecting coöperation and what it may eventually do, that no pretense toward covering the field has been made. The subjects of the preceding chapters were chosen because they seemed as good by way of illustration as any. A description of the many lines of coöperative marketing in the United States would fill a volume or two of good proportions. It will not be out of place to offer a few paragraphs in the nature of a sketch of some of the leading coöperative undertakings not already discussed.

Fruit.—One of the most prominent lines of successful coöperative marketing, running into hundreds of millions of dollars is found among the fruit growers. Complete in equipment and method, and with a history of twenty years, the California Fruit Growers' Exchange is held up the world over as a model. The outstanding points of this company are its size, its efficiency, and its enterprise. The bulk of the citrus fruit of California is marketed through this company. Sales a short time ago averaged almost $5,000,000 a month throughout the year. The great lesson to be learned from this company is the possibility of getting what the market will afford for goods. Their information concerning markets and the whereabouts and condition of their fruit costs them $100,000 a year. But they learn where a car of fruit will sell for the most money, and there it goes. The method of selling has come to be mainly the auction, a means by which active, competitive bidding brings the best obtainable prices. The fruit is pooled, and those in the pool get their proportional share of the returns without reference to the price of any particular car consigned. Centralized management with

respect to matters of information, and democratic control of the problem of making actual sales, is an ideal seldom attained in coöperative companies. The growers can hardly complain about the prices received since they, within limits, determine the time of making the sale, and there is little room to criticize the method of making it.

The various apple growers' unions, the small fruit associations, the cherry-selling companies, all illustrate the success and the necessity of coöperation in the handling of perishables grown a long way from market.

Wool.—Nothing brings out the need of coöperation in getting what goods are worth better than the experience in selling the 1919 and 1920 wool crop. It was not wanted by speculators at a price which in any way corresponded with the prices of other products. During 1919 the gap between the prices received by the wool grower and those paid by the manufacturer was wide. A wool pool by states proved efficient, and the prices were leveled up within a reasonable degree.

In the spring of 1920 the wool market collapsed, and for months there was almost no market at any price. Stimulated by the success of the previous year, the wool clip of 1920 was pooled in a large number of states. It was estimated that approximately one third of the whole amount produced was either in the state or national pools. On this wool in the warehouses the bankers advanced money, sometimes too much. The wool episode, no matter how it turns out, emphasizes the necessity of some adequate arrangement on the part of farmers for handling their produce in a large way. There may be a difference of opinion as to the advisability of holding wheat from fall till spring. There can be no difference of opinion as to the good judgment in holding wool from a time when it is worth almost nothing until some measure of recovery in price has taken place; it almost has to occur within a few months.

Cotton and Tobacco.—In the past the efforts to put the marketing of cotton on a stable basis have not been successful in a large way. The ups and downs of the quan-

tity grown on a given acreage, the utter failure to control the acreage, the dependence of the cotton grower on the one crop, all have made it extremely difficult to manage the marketing in a logical way. Something has been done; the growers have been educated in a measure; better warehouses are available; and in a small way the financial facilities have been improved.

During the winter of 1920 and 1921, a movement spread over the cotton states for the creation of a marketing organization far more promising of good results than anything before attempted. It is modeled after the plans of the American Farm Bureau Federation, and, if successful in getting under way, will undoubtedly become a part of that body. Essentially the plan is to organize a cotton growers' coöperative association in each state, and later to bring these associations together. The state association makes a contract with the grower under which all cotton grown for five years is to be delivered to the association, the association to have full control over it, including grading, inspection, warehousing, and sale. The grower agrees to pay 5 cents a pound as liquidated damages on all cotton grown and sold outside; he is not required to grow cotton, but is free to change to any other crop. Should the movement result in gaining control of a few million bales, as it plans to do even before starting business, there is every reason to believe that it may become of major importance in handling this great crop. One of the greatest difficulties to contend with will be the custom of crop mortgages and liens which tie the grower up to a local merchant or landlord in so many cases.

Plans similar in almost every particular are in progress in the tobacco districts for the marketing of tobacco. One of the noteworthy circumstances in connection with these marketing efforts is that the state market bureaus and the federal Department of Agriculture are lending their influence and active support. With guidance of this sort, together with the backing of the American Farm Bureau Federation the prospect of getting more order and system into the marketing of these crops is good.

The Limitation and Possibilities of Coöperation.—While there are many successful coöperative companies at work outside the field of the instances noted, such as egg, vegetable and potato companies, enough has been given to indicate that the farmers are taking an active part in the marketing of their produce. It is the logical and inevitable course for them to pursue. To expect the market to come to them, taking whatever they may happen to have on hand, and giving them a satisfactory price for it, is to expect the impossible. Concerted action characterizes the more highly organized business world, and the farmers must meet organization with organization.

The extent to which coöperative marketing may eventually go is entirely problematical. So long as farmers are reasonably prosperous they will not take the trouble to do for themselves work that some one else will do for them, even though the opportunity for saving is considerable. Coöperation has succeeded in several countries to a greater extent than has yet been the case in the United States. Among the best instances of success may be mentioned the Danish coöperative selling of butter, bacon and eggs; the sale of cheese in Holland; the sale of dairy products in New Zealand; the sale of grain in Canada. No doubt in the aggregate quantity of sales, expressed in value of goods, the coöperative selling in this country is greater than in any other.

Extent of Coöperative Business in the United States.—To determine the extent of coöperative marketing is no easy matter, since reports of a satisfactory character are not available. However, it is far past the experimental stage in many lines of development. It may be noted that the bulk of the citrus fruits are coöperatively marketed; probably one third of the butter and cheese; not far from half of the grain going to central markets; a quarter of the live stock; and an appreciable amount of other products, such as fruit, nuts, vegetables, eggs and wool.

While an estimate is difficult, and a guess is hazardous, it may not be altogether useless to make an effort at an

approximation of the proportion of farm produce which goes through coöperative hands. A fairly safe estimate might be made by setting the limits at twenty and forty per cent of all farm produce going through the channels of trade. Different degrees of coöperation are found on every hand. In one case the whole space between producer and consumer may be covered, in another but one step out of four or five may be taken coöperatively. The former may be illustrated by the few examples of coöperative milk delivery; the latter by the coöperative sale of cheese to the dealer who sells it to a wholesaler, after which it may pass through several hands before reaching the consumer. Hence were the whole field of marketing taken into account, the whole service of the middleman, the estimate of from twenty to forty per cent would of necessity be much reduced. It is the proportion of farm produce handled to some extent coöperatively which is taken as the criterion of the estimate.

No accurate statistics on this subject are available. The Department of Agriculture a few years ago made a survey of coöperative purchases and sales by farmers and found in 1917 it amounted to $626,000,000, for the companies studied.[1] It would seem that this figure is altogether inadequate. To begin with, the survey shows but 1,637 farmer-owned elevators whereas the number reported by the men interested in that subject is about two and a half times as great. True, they are by no means all coöperative in the fullest sense, but they are owned by the farmers and are essentially coöperative. The amount of coöperation in the one state of California was estimated[2] at $225,000,000 for the year 1919. The estimate in the bulletin noted, of live-stock shipping associations, was ninety-six. In the early part of 1921 the number was estimated at four thousand. If these associations are doing an average business equal to the amount estimated in the bulletin referred to the total sum involved would be about $250,000,000, allowing for lower prices. It would be a safe estimate to put the amount

[1] U. S. Department of Agriculture, Bulletin 547.
[2] *Prairie Farmer*, September 18, 1920. Article by Herman Steen.

of sales through farmers' organizations at $2,000,000,000. It must be recognized that this is not intended to appear as a highly accurate statement.

Coöperation Will Grow.—That coöperation is here to stay cannot be doubted. Neither can it be doubted that it will continue to grow. It will grow because it so amply justifies itself. The farmers have learned, and are learning, that it is not reasonable to expect middlemen to take the produce from the farmers' hands, unclassified, ungraded, in any possible quantity, and pay for it what it would be worth properly prepared for market. And after it is once prepared there is no good reason why the farmer should then turn the goods over to an intermediate agency between himself and the central wholesale buyer. To sell wheat to the miller, live stock to the packer, fruit to the wholesale trade, and wool to the manufacturers seems the most logical plan in the world. To undertake to go farther and elaborate the raw material does not seem so logical; it is too far removed from farming.

The Limits of Direct Marketing.—Getting consumer and producer together has long been a dream of the producer and, to a lesser extent, of the consumer. For the producer to prepare and sell his goods to the consumer means that he must become a retailer, and if he does he will be compelled to act the part of a retailer. Not over 10 or 12 per cent of farm produce, in value, comes within the range of retail possibilities. Of this but a small portion is ever likely to be carried to a public retail market, or sent by parcel post. The farmer can undoubtedly put his butter and eggs up in cartons and leave them at the mail box, but that he can do so and keep the customers satisfied at all times is extremely improbable. After all the excitement over the passage of the parcel-post act, nothing of a spectacular character has happened. A considerable quantity of highly specialized produets, eggs, chickens, butter, and fruit, are sent by parcel post, but the storekeepers, who were so much alarmed lest the retail trade should suffer, and the consumers, who had hopes of a lowered cost of living, are both disillusioned. The grocers do

not notice the change in business done, and the consumer has learned that "products fresh from the farm" means added trouble and cost.

The municipal market likewise fails to come up to the bill posters which have announced its performances. That the public market fills an important function no one need deny. That it affords an outlet for any appreciable amount of farm produce is not the case. No matter how valuable an institution the municipal market may be to the market gardener, or, on the other hand, to the consumer, it is not designed as a market for the farmer. The main business of the farmer is production, and no matter how eloquently it may be pointed out that he should sell as efficiently as he produces, and he should, it is likewise true that he cannot put in half his time doing the selling. The European markets are often cited as models, but it is not always stated that the women stay there all day, frequently leaving home at from three to five o'clock in the morning, taking breakfast and dinner with them, and all to sell a cart load of vegetables at retail price. We have a few people who have to work equally hard for a meager living, but the most of the farmers are earning more at home than they could earn sitting at the market place day after day for the difference between the wholesale and retail price on a load of produce. Then too, most farm produce does not lend itself at all to trade of this kind.

The Advantage of Coöperation.—Coöperation does not mean direct marketing. It may as well be frankly admitted that it means putting a hired middleman in the place of a middleman working for himself. The great advantage which coöperation has over private agencies is that of an assured business which can grow to such a size as to reduce the overhead costs to a minimum. The overhead of the California Fruit Growers' Exchange is 1.1 per cent; that of the Wisconsin Cheese Producers' Federation is 1.5 per cent. Even though the items included in overhead may vary slightly as between the two companies, they both serve to illustrate the advantage of doing business on a large scale.

What a coöperative company is trying to do is, first, to transact business more economically than it is done for them by private, possibly competing companies; and, second, to adjust themselves and their goods to the market so as to get all that the circumstances will afford. Carried to its logical length, this means exerting an influence over the market which previously seemed as impersonal and inevitable as the weather. The extent to which this influence can be carried depends on the facts involved. It may be wise to assume to be in command of the raisin and prune market, and not wise to undertake the assertion of so much power in the citrus fruit market. In a large way each is doing the same thing, namely, undertaking to get what the market will afford, but the one requires a calculated price, the other does not. In one case, the supply, once for all, is to be spread over the year; in the other case, a constantly appearing supply, highly perishable, has to be adjusted to the demand at the moment. The advantage which all coöperative effort is bent toward obtaining is that of the market value somewhat farther along the road toward the consumer than the individual effort of the farmer is able to get.

State Aid in Marketing.—The extent to which the state may, or should, go in aiding the farmer to market his crops has been much contested. The town merchant cannot be blamed for thinking the county agent somewhat out of his bailiwick in teaching the farmers to buy at wholesale from out of town. As a buyer of farm produce, he feels that the coöperative sales movement hardly needs official help. Is not the county agent paid out of a general fund to which the townspeople contribute? Then why should he set class against class, and work for the advantage of one against that of the other?

From a broader point of view there seems to be little room to debate the advisability of using state aid in the promotion of general economy, and part of that, a large part, in fact, is marketing. Just what the state should, and should not, do is a rather delicate question. For one thing, it may, without doubt, furnish, or help to get,

information. Obtainable facts relating to production are usually obtained. The same is far from the case in marketing. Or, if that seems a contradiction in terms, it may be said that a great deal of information obtainable by authority is not available to those lacking the authority. An experiment station can create the conditions for studying feeding problems, soil management, plant diseases, but what experiment can be conducted in marketing that will explain the real essence of marketing facts, troubles, and remedies? Marketing operations involve human beings and their welfare, also their notions as to rights and immunities. The custodians of information concerning the marketing of farm produce look upon it as private property, the value of which will decline with publicity. They cannot be blamed for looking out for themselves. Hence if the time comes, and it does, when in the interest of a larger group this information should be made available it takes the power of the state to get it.

Hardly open to dispute is the advisability of the gathering and disseminating of information not so closely guarded, but from such scattered sources, as to be difficult to obtain, classify, and report. In this we have such work as reporting crop prospects and yields, the number of live stock, and the like. Beyond this comes the question of reports concerning markets, the prices, receipts, and prospects of receipts so far as they can be predicted. If a coöperative agency can furnish better information, well and good, let it do so, but the government force in all probability should be the best available means of doing the work on a large and unbiased scale.

A great deal has been expected of the state in the way of legislation. In most of the states there are laws providing for the incorporation of coöperative companies. These are desirable, but not so vital as is popularly supposed. A farmers' company can do substantially as it wishes under the general corporation laws. There is, however, an advantage in uniformity among the coöperative companies, and this is promoted by a special law covering the essential provisions.

The farmers persist in asking Congress to pass an act exempting them from the provisions of the antitrust law of thirty years standing. Under this act several farmers' companies have been indicted. What is needed is an interpretation of the antitrust act, and if it will not permit action which ought to be legal then it, the law, should be so modified as to make it legal. As it now stands, the antitrust law seems formidable in its application to laborers (now exempt) and to farmers, but hopelessly innocuous when applied to the businesses which it was designed to control. To grant the farmers immunity from the action of a general law supposed to apply alike to all, will create a prejudice against them which they cannot afford to engender. Farmers do not want special privileges; they want fairness. It is manifestly unfair to interpret the antitrust law to mean that no farmers may legally meet for the discussion of prices, and the remedy best suited to the trouble is by no means the exemption from the rule which presumably applies to others, particularly to those with interests opposed to farmers. A recasting of the antitrust legislation is due.

Adjusting Supply to Demand Primary.—Whatever is or is not done by way of improved marketing, one thing will stand out in bold relief against the background of all proposals. The ultimate solution of the marketing problem consists in adapting production to demand. No farmer, or group of farmers, can hope to make over the demand for agricultural products, though in particular instances it may be influenced. The main task of the farmer in conquering the marketing difficulties is to get market information and act on the basis it affords. This means the coordination of action, since one farmer is too insignificant to bring much to pass alone. He cannot even get the facts of the market, and could not take advantage of them to any great extent if he could. It is of no avail to complain about business men who look out for their own interests. They are doing exactly what the farmer would do if he had the chance. It is strange how unsuccessful sinners can complain about successful sinners. Give the farmers the

power, and the very act that to them is wholly fair and justifiable will look to the public predatory and arrogant.

Concentration and Control.—The hope is that the farmers will be able to concentrate their business until it commands attention. Should such an event come to pass, it will mean that one powerful bargaining agency will meet other powerful bargaining agencies. An umpire will be needed to insure fair play. In many cases the umpire must be public opinion embodied in some public official, perhaps a commission, occasionally the court.

To expect a return to primitive simplicity on the part of railroads and coal operators, for example, is to cry for the moon. Such businesses tend to concentrate in few hands. They are monopolies and must be treated as such. Selling farm produce has seldom approached monopoly characteristics. After the manifestations appear will be soon enough to provide for their control. It is not a malady which is likely to prove epidemic or devastating. The large size of a company, even though it may handle the bulk of the product in which it deals does not necessarily mean monopoly. A monopoly must be judged by its results, not by a superficial appearance. Farmers have no more right to operate a monopoly than have others. Should they become a menace in this regard, they should be dealt with accordingly, not as we have dealt with the monopolies we have, but effectively. The prospect of farmer-controlled monopoly is remote. Even without a monopoly, however, the concentration of farmer business into large units will mean added public responsibility. This the farmers seem disposed to recognize. The concentration which is so necessary to insure economical marketing means coöperation. If the faith in legislation as a cure for marketing ills can be replaced by an appreciation of the real nature of the case; if the farmers' organizations can go into politics to the small extent needed, and can keep out of the general whirlpool; if they can employ management equal to that of the businesses against which they must compete; if they can learn to act, even though slowly, on the basis of light rather than heat, then a new period of prosperity is arising.

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